

IMPORTANT NOTICE

THE ATTACHED OFFERING CIRCULAR IS NOT FOR DISTRIBUTION IN OR INTO THE UNITED STATES, EXCEPT TO QUALIFIED INSTITUTIONAL BUYERS (QIBs), AS DEFINED IN, AND IN COMPLIANCE WITH, RULE 144A UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT), OR OTHERWISE TO PERSONS TO WHOM IT CAN LAWFULLY BE DISTRIBUTED.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the offering circular attached to this electronic transmission and you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached offering circular (the **Offering Circular**). In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from The Pakistan Global Sukuk Programme Company Limited (the **Trustee**) or The President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan (the **Government**), as a result of such access.

Restrictions: THE FOLLOWING ELECTRONIC TRANSMISSION MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE OFFERING CIRCULAR MAY ONLY BE DISTRIBUTED IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT (**REGULATION S**) AND TO QIBS PURSUANT TO RULE 144A UNDER THE SECURITIES ACT (**RULE 144A**). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THE OFFERING CIRCULAR CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY CERTIFICATES DESCRIBED THEREIN.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. ANY SECURITIES TO BE ISSUED 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 WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

THE OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON WITHOUT THE PRIOR WRITTEN CONSENT OF THE ARRANGERS AND THE DEALERS (EACH, AS DEFINED IN THE OFFERING CIRCULAR) AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. DISTRIBUTION OR REPRODUCTION OF THE OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE SECURITIES LAWS OF OTHER JURISDICTIONS.

ANY SECURITIES DESCRIBED IN THE OFFERING CIRCULAR WHICH DO NOT CONSTITUTE "ALTERNATIVE FINANCE INVESTMENT BONDS" (**AFIBS**) WITHIN THE MEANING OF ARTICLE 77A OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (REGULATED ACTIVITIES) (AMENDMENT) ORDER 2010 WILL REPRESENT INTERESTS IN

A COLLECTIVE INVESTMENT SCHEME (AS DEFINED IN THE FINANCIAL SERVICES AND MARKETS ACT 2000, AS AMENDED (**FSMA**)) WHICH HAS NOT BEEN AUTHORISED, RECOGNISED OR OTHERWISE APPROVED BY THE UNITED KINGDOM FINANCIAL CONDUCT AUTHORITY. ACCORDINGLY, THE OFFERING CIRCULAR IS NOT BEING DISTRIBUTED TO, AND MUST NOT BE PASSED ON TO, THE GENERAL PUBLIC IN THE UNITED KINGDOM.

THE DISTRIBUTION IN THE UNITED KINGDOM OF THE OFFERING CIRCULAR, ANY PRICING SUPPLEMENT (AS DEFINED IN THE OFFERING CIRCULAR) AND ANY OTHER MARKETING MATERIALS RELATING TO THE SECURITIES IS BEING ADDRESSED TO, OR DIRECTED AT: (A) IF THE DISTRIBUTION OF THE SECURITIES (WHETHER OR NOT SUCH SECURITIES ARE AFIBS) IS BEING EFFECTED BY A PERSON WHO IS NOT AN AUTHORISED PERSON UNDER THE FSMA, ONLY THE FOLLOWING PERSONS: (I) PERSONS WHO ARE INVESTMENT PROFESSIONALS AS DEFINED IN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (THE **FINANCIAL PROMOTION ORDER**); (II) PERSONS FALLING WITHIN ANY OF THE CATEGORIES OF PERSONS DESCRIBED IN ARTICLE 49 (HIGH NET WORTH COMPANIES, UNINCORPORATED ASSOCIATIONS, ETC.) OF THE FINANCIAL PROMOTION ORDER; AND (III) ANY OTHER PERSON TO WHOM IT MAY OTHERWISE LAWFULLY BE MADE IN ACCORDANCE WITH THE FINANCIAL PROMOTION ORDER; AND (B) IF THE SECURITIES ARE NOT AFIBS AND THE DISTRIBUTION IS EFFECTED BY A PERSON WHO IS AN AUTHORISED PERSON UNDER THE FSMA, ONLY THE FOLLOWING PERSONS: (I) PERSONS FALLING WITHIN ONE OF THE CATEGORIES OF INVESTMENT PROFESSIONALS AS DEFINED IN ARTICLE 14(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (PROMOTION OF COLLECTIVE INVESTMENT SCHEMES) (EXEMPTIONS) ORDER 2001 (THE **PROMOTION OF CISS ORDER**); (II) PERSONS FALLING WITHIN ANY OF THE CATEGORIES OF PERSONS DESCRIBED IN ARTICLE 22 (HIGH NET WORTH COMPANIES, UNINCORPORATED ASSOCIATIONS, ETC.) OF THE PROMOTION OF CISS ORDER; AND (III) ANY OTHER PERSON TO WHOM IT MAY OTHERWISE BE LAWFULLY PROMOTED.

THIS ELECTRONIC TRANSMISSION IS BEING DIRECTED ONLY AT PERSONS HAVING PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS AND ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS ELECTRONIC TRANSMISSION RELATES WILL BE ENGAGED IN ONLY WITH SUCH PERSONS. NO OTHER PERSON SHOULD RELY ON IT.

Confirmation of Your Representation: By accessing the Offering Circular you confirm to the Arrangers and the Dealers, the Trustee, as issuer of the Certificates (as defined in the Offering Circular) and the Government, that: (i) you understand and agree to the terms set out herein; (ii) either (a) you are a QIB or (b) you are not a U.S. person (within the meaning of Regulation S), or acting for the account or benefit of any U.S. person, and that you are not in the United States, its territories and possessions; (iii) you consent to delivery of the Offering Circular by electronic transmission; (iv) you will not transmit the Offering Circular (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the prior written consent of the Arrangers and the Dealers; and (v) you acknowledge that you will make your own assessment regarding any credit, investment, legal, Shari'a, taxation or other economic considerations with respect to your decision to subscribe or purchase any of the Certificates.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Offering Circular, electronically or otherwise, to any other person and in particular to any U.S. person or to any

U.S. address. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

If you received the Offering Circular by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the "Reply" function on your email software, will be ignored or rejected. If you received the Offering Circular by e-mail, your use of this email is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where such offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction the offering shall be deemed to be made by the Dealers or such affiliate on behalf of the Trustee in such jurisdiction.

Under no circumstances shall the Offering Circular constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of the Offering Circular who intend to subscribe for or purchase the Certificates are reminded that any subscription or purchase may only be made on the basis of the information contained in the Offering Circular.

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Trustee, the Government, the Arrangers, the Dealers or any person who controls or is a director, officer, employee or agent of the Trustee, the Government, the Arrangers or the Dealers nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Arrangers or the Dealers.

The distribution of the Offering Circular in certain jurisdictions may be restricted by law. Persons into whose possession the Offering Circular comes are required by the Trustee, the Government, the Arrangers and the Dealers to inform themselves about, and to observe, any such restrictions.

OFFERING CIRCULAR



THE PRESIDENT OF THE ISLAMIC REPUBLIC OF PAKISTAN FOR AND ON BEHALF OF THE ISLAMIC REPUBLIC OF PAKISTAN

THE PAKISTAN GLOBAL SUKUK PROGRAMME COMPANY LIMITED (a public limited liability company incorporated in the Islamic Republic of Pakistan)

Trust Certificate Issuance Programme

Under the trust certificate issuance programme (the **Programme**) described in this Offering Circular (the **Offering Circular**), The Pakistan Global Sukuk Programme Company Limited (in its capacity as issuer and trustee, the **Trustee**), subject to compliance with all applicable laws, regulations and directives, may from time to time issue trust certificates (the **Certificates**), denominated in any currency agreed between the Trustee, the Government and the relevant Dealer(s) (as defined below). Certificates may only be issued in registered form.

The Certificates may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer(s) appointed under the Programme from time to time (each, a **Dealer**, and together, the **Dealers**) by the Trustee and The President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan (the **Government**), which appointment may be for a specific issue of Certificates or on an ongoing basis. References in this Offering Circular to the **relevant Dealer(s)** shall, in the case of an issue of Certificates being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe to such Certificates.

**An investment in Certificates issued under the Programme involves certain risks.
See "Risk Factors".**

Each Tranche (as defined in the terms and conditions of the Certificates (the **Conditions**)) of Certificates will be constituted by: (i) a master trust deed (the **Master Trust Deed**) dated 18 January 2022 entered into by the Trustee, the Government and BNY Mellon Corporate Trustee Services Limited as delegate of the Trustee (in such capacity, the **Delegate**); and (ii) a supplemental trust deed (each a **Supplemental Trust Deed**) in relation to the relevant Tranche. Certificates of each Series (as defined in the Conditions) confer on the holders of the Certificates from time to time (the **Certificateholders**) the right to receive payments (as more particularly described herein) arising from the assets of a trust declared by the Trustee in relation to the relevant Series (the **Trust**).

Application has been made to the London Stock Exchange plc (the **London Stock Exchange**) for the Certificates issued under the Programme during the period of 12 months from the date of this Offering Circular to be admitted to the London Stock Exchange's International Securities Market (**ISM**). The ISM is not a United Kingdom (**UK**) regulated market for the purposes of Regulation (EU) No 600/2014 on markets in financial instruments as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (**EUWA**) (**UK MiFIR**).

The ISM is a market designated for professional investors. Certificates admitted to trading on the ISM are not admitted to the Official List of the UK Financial Conduct Authority (FCA). The London Stock Exchange has not approved or verified the contents of this Offering Circular.

References in this Offering Circular to the Certificates being **admitting to trading** (and all related references) shall mean that such Certificates have been admitted to trading on the ISM, so far as the context permits.

This Offering Circular does not constitute a prospectus for the purposes of a listing or an admission to trading on any market in the UK which has been designated as a regulated market for the purposes of UK MiFIR and has not

been approved by the FCA pursuant to the Official Listing of Securities, Prospectus and Transparency (Amendment etc.) (EU Exit) Regulations 2019.

This Offering Circular does not constitute a prospectus for the purposes of a listing or an admission to trading on any market in the European Economic Area (the **EEA**) which has been designated as a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2014/65/EU) (as amended, **MiFID II**), and has not been approved by the competent authority in any member state of the EEA pursuant to Regulation (EU) 2017/1129.

Notice of the aggregate face amount of Certificates, profit (if any) payable in respect of Certificates, the issue price of Certificates and certain other information which is applicable to each Tranche of Certificates will be set out in a pricing supplement document (the **Pricing Supplement**) which, with respect to Certificates to be admitted to trading on the ISM, will be delivered to the London Stock Exchange. Copies of Pricing Supplements in relation to Certificates to be admitted to trading on the ISM may also be published on the website of the London Stock Exchange through a regulatory information service or may be published in such other manner permitted by the International Securities Market Rulebook effective as of 1 January 2021 (as may be modified and/or supplemented and/or restated from time to time, the **ISM Rulebook**).

The Programme provides that Certificates may be listed and/or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Trustee, the Government and the relevant Dealer. The Trustee may also issue unlisted Certificates and/or Certificates not admitted to trading on any market. The applicable Pricing Supplement in respect of any Series will specify whether or not such Certificates will be listed and, if so, on which exchange(s) the Certificates are to be listed. The Trustee may also issue unlisted Certificates and/or Certificates not admitted to trading on any market.

The Certificates have 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. Certificates may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (**Regulation S**)) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Certificates are being offered, sold or delivered only (A) outside the United States in offshore transactions to non-U.S. persons in accordance with Regulation S and initially represented by a global certificate in registered form (a **Regulation S Global Certificate**) and (B) in the United States to "qualified institutional buyers" (**QIBs**) within the meaning of Rule 144A under the Securities Act (**Rule 144A**) and represented by one or more global certificates in registered form (a Rule 144A Global Certificate, together with a Regulation S Global Certificate, the **Global Certificates**). For a description of certain restrictions on offers and sales of Certificates and on distribution of this Offering Circular, see "*Subscription and Sale and Transfer and Selling Restrictions*". Global Certificates will either (A) be deposited on the relevant issue date with, and registered in the name of a nominee for, a common depository (the **Common Depository**) on behalf of Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking S.A. (**Clearstream, Luxembourg**) or (B) be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company (**DTC**). The provisions governing the exchange of interests in Global Certificates for definitive Certificates are described in "*Summary of Provisions relating to the Certificates while in Global Form*".

Amounts payable on Floating Rate Certificates will be calculated by reference to EURIBOR, as specified in the applicable Pricing Supplement. As at the date of this Offering Circular, the administrator of EURIBOR is included in the FCA's register of administrators under Article 36 of Regulation (EU) No 2016/1011 as it forms part of domestic law by virtue of the EUWA (the **UK Benchmarks Regulation**).

Fitch Hong Kong Limited's (**Fitch**) current rating of the Government is B- (stable outlook). Moody's Investors Service Singapore Pte. Ltd (**Moody's**) current rating of the Government is B3 (stable outlook). Series of Certificates issued under the Programme may be rated by Fitch and/or Moody's. Neither Fitch nor Moody's is established in the EEA or the UK and neither of them has applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**) or Regulation (EC) No. 1060/2009 as it forms part of domestic law by virtue of the EUWA (the **UK CRA Regulation**), respectively.

The rating assigned by Moody's has been endorsed by Moody's Deutschland GmbH (**Moody's Germany**) and Moody's Investors Service Ltd. (**Moody's UK**) in accordance with the CRA Regulation and the UK CRA Regulation, respectively. Moody's Germany is established in the EEA and registered under the CRA Regulation. As such, Moody's Germany is included in the list of credit rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. Moody's UK is established in the UK and registered in accordance with the UK CRA Regulation. As such, the ratings issued by Moody's may be used for regulatory purposes in the UK in accordance with the UK CRA Regulation.

The rating assigned by Fitch has been endorsed by Fitch Ratings Ireland Limited (**Fitch Ireland**) and Fitch Ratings Ltd (**Fitch UK**) in accordance with the CRA Regulation and the UK CRA Regulation, respectively. Fitch Ireland is established in the EEA and registered under the CRA Regulation. As such, Fitch Ireland is included in the list of credit rating agencies published by ESMA on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. Fitch UK is established in the UK and registered in accordance with the UK CRA Regulation. As such, the ratings issued by Fitch may be used for regulatory purposes in the UK in accordance with the UK CRA Regulation. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The transaction structure relating to the Certificates (as described in this Offering Circular) has been approved by the Internal Sharia Supervisory Committee of Dubai Islamic Bank PJSC and the Standard Chartered Bank Global Shariah Supervisory Committee. Prospective investors should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own Shari'a advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with Shari'a principles. None of the Trustee, the Government, the Arrangers, the Dealers, the Delegate or the Agents makes any representation as to the Shari'a compliance of the Certificates and/or any trading thereof.

Arrangers and Dealers

Credit Suisse

Deutsche Bank

Dubai Islamic Bank

Standard Chartered Bank

The date of this Offering Circular is 18 January 2022

IMPORTANT NOTICES

This Offering Circular does not comprise a prospectus for the purposes of either Regulation (EU) 2017/1129 or Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA (the **UK Prospectus Regulation**), and has not been approved as such by the competent authority in any member state of the EEA or the FCA.

Each of the Trustee and the Government accepts responsibility for the information contained in this Offering Circular and the applicable Pricing Supplement for each Tranche of Certificates issued under the Programme. Each of the Trustee and the Government, having taken all reasonable care to ensure that such is the case, confirms that, to the best of its knowledge, 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 in accordance with the facts, not misleading and contains no omission likely to affect its import and that the opinions and intentions expressed in this Offering Circular are honestly held.

Where information has been sourced from a third party (other than a state agency or Government department, in respect of which each of the Trustee and the Government accepts responsibility), each of the Trustee and the Government confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of any third party information contained in this Offering Circular is stated where such information appears in this Offering Circular.

Each Tranche of Certificates will be issued on the terms set out herein under the Conditions, as completed by the Pricing Supplement. This Offering Circular must be read and construed together with any supplements hereto and, in relation to any Tranche of Certificates, should be read and construed together with the applicable Pricing Supplement.

The language of this Offering Circular is English. Certain technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

No person is or has been authorised to give any information or to make any representation other than those contained in this Offering Circular in connection with the Programme or the issue or sale of the Certificates and, if given or made, such information or representation must not be relied upon as having been authorised by the Trustee, the Government, the Arrangers, the Dealers, the Delegate or the Agents (as defined herein). Neither the delivery of this Offering Circular nor any sale made in connection herewith shall, under any circumstances, create any implication that the information contained herein concerning the Trustee or the Government is correct at any time subsequent to the date hereof, there has been no change in the affairs of the Trustee or the Government since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented, or that there has been no adverse change in the financial position of the Trustee or the Government since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Offering Circular and the offering or sale of the Certificates in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Trustee, the Government, the Arrangers and the Dealers to inform themselves about and to observe any such restrictions. 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. Certificates may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Certificates are being offered, sold or delivered only outside the United States in offshore transactions to non-U.S. persons in accordance with Regulation S. 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 the offer, sale or delivery of Certificates to it will be made in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S. For a description of certain restrictions on offers and sales of Certificates and on distribution of this Offering Circular, see "*Subscription and Sale and Transfer and Selling Restrictions*".

If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Arrangers or Dealers or any affiliate of the Arrangers or Dealers is a licensed broker or dealer in that jurisdiction the offering shall be deemed to be made by that Arranger or Dealer or such affiliate on behalf of the Trustee in such jurisdiction.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Trustee, the Government, the Arrangers or the Dealers to subscribe for, or purchase, any Certificates.

To the fullest extent permitted by law, none of the Arrangers, the Dealers, the Delegate or the Agents accepts any responsibility for the contents of this Offering Circular or for any other statement made, or purported to be made, by the Arrangers, the Dealers, the Delegate, the Agents or on its or their behalf in connection with the Trustee, the Government or the issue and offering of the Certificates. Each of the Arrangers, the Dealers, the Delegate and the Agents accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement, including in relation to the information contained in this Offering Circular or any other information provided by the Trustee or the Government in connection with the Programme or the issue or offering of Certificates thereunder. Neither this Offering Circular nor any other such statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Trustee, the Government, the Arrangers, the Dealers, the Delegate or the Agents that any recipient of this Offering Circular or any other such statements should purchase the Certificates. Each potential purchaser of Certificates should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Certificates should be based upon such investigation as it deems necessary. None of the Arrangers, the Dealers, the Delegate or the Agents undertakes to review the financial condition or affairs of the Trustee or the Government during the life of the arrangements contemplated by this Offering Circular, nor to advise any investor or potential investor in Certificates issued under the Programme of any information coming to the attention of any of the Arrangers, the Dealers, the Delegate or the Agents.

The Arrangers, the Dealers, the Delegate and the Agents and their respective affiliates have not independently verified (i) the information contained herein; or (ii) any matter which is the subject of any statement, representation, warranty or covenant of the Trustee or the Government in the Certificates or the Transaction Documents (as defined in the Conditions), as applicable. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arrangers, the Dealers, the Delegate or the Agents or their respective affiliates as to (a) the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Trustee or the Government in connection with Certificates issued under the Programme or (b) the execution, legality, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence of the Certificates or any Transaction Documents nor any responsibility for any acts or omissions of the Trustee or the Government or any other person in connection with this Offering Circular or the issue and offering of Certificates under the Programme. None of the Arrangers, the Dealers, the Delegate or the Agents or any of their respective affiliates

accepts any liability in relation to the information contained in this Offering Circular or any other information provided by the Trustee or the Government in connection with Certificates issued under the Programme.

THE CERTIFICATES MAY NOT BE A SUITABLE INVESTMENT FOR ALL INVESTORS

Each potential investor in any Certificates must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the relevant Certificates, the merits and risks of investing in the relevant Certificates and the information contained in this Offering Circular or any supplement thereto;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Certificates and the impact such investment will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Certificates, including Certificates where the currency for any Dissolution Distribution Amount or Periodic Distribution Amount (each as defined herein) payments are different from the potential investor's currency;
- (iv) understands thoroughly the terms of the relevant Certificates and is familiar with the behaviour of financial markets; and
- (v) is 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.

The Certificates are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Certificates unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Certificates will perform under changing conditions, the resulting effects on the value of such Certificates and the impact this investment will have on the potential investor's overall investment portfolio.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to 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) Certificates are legal investments for it, (ii) Certificates can be used as collateral for various types of borrowing or raising of finance 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 Certificates under any applicable risk-based capital or similar rules.

The Certificates to which this Offering Circular relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Certificates offered should conduct their own due diligence on the Certificates. If you do not understand the contents of this Offering Circular you should consult an authorised financial adviser.

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

should be able to bear the economic risk of an investment in the Certificates for an indefinite period of time.

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

STABILISATION

In connection with the issue of any Tranche, the Dealer or Dealers (if any) named as the stabilisation manager(s) (the Stabilisation Manager(s)) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Pricing Supplement 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 of the relevant Tranche 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 relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

MIFID II PRODUCT GOVERNANCE / TARGET MARKET

The Pricing Supplement in respect of any Certificates will include a legend entitled "MiFID II product governance", which will outline the target market assessment in respect of the Certificates and which channels for distribution of the Certificates are appropriate. Any person subsequently offering, selling or recommending the Certificates (a **distributor**) should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, **MiFID II**) is responsible for undertaking its own target market assessment in respect of the Certificates (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the Product Governance rules under EU Delegated Directive 2017/593 (the **MiFID Product Governance Rules**), any Dealer subscribing for any Certificates is a manufacturer in respect of such Certificates, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

UK MiFIR PRODUCT GOVERNANCE / TARGET MARKET

The Pricing Supplement in respect of any Certificates will include a legend entitled "UK MiFIR product governance", which will outline the target market assessment in respect of the Certificates and which channels for distribution of the Certificates are appropriate. Any distributor should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the **UK MiFIR Product Governance Rules**) is responsible for undertaking its own target market assessment in respect of the Certificates (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Certificates is a manufacturer in respect of such Certificates, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

**NOTIFICATION UNDER SECTION 309B(1)(C) OF THE
SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE,
AS MODIFIED OR AMENDED FROM TIME TO TIME (THE SFA)**

Unless otherwise stated in the applicable Pricing Supplement, all Certificates issued or to be issued under the Programme shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in Monetary Authority of Singapore (the **MAS**) Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

VOLCKER RULE

The Trustee 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 U.S. 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 U.S. Investment Company Act of 1940, as amended (the **Investment Company Act**) and under the Volcker Rule and its related regulations may be available, the Trustee has relied on the determinations that (i) the Trustee would satisfy all of the elements of the exemption from registration under the Investment Company Act provided by Rule 3a-5 of the Investment Company Act, and, accordingly, (ii) the Trustee 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.

CAUTIONARY STATEMENT REGARDING 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 Government undertakes no obligation to update any of them in light of new information or future events. Forward-looking statements involve inherent risks. The Government 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;
- impact of possible future regional instability;
- the impact of the COVID-19 pandemic on national, regional and global economies; and

- the decisions of international financial institutions including, in particular, the IMF, 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 the current Government to implement its comprehensive economic recovery programme;
- the levels of foreign direct and portfolio investment; and
- the levels of Pakistani domestic interest rates.

PRESENTATION OF STATISTICAL AND OTHER INFORMATION

References to **Pakistan** are to the Islamic Republic of Pakistan and references to the **Government** are to the Government of Pakistan. References to the **Pakistan Economic Survey 2020-21** herein are to the Pakistan Economic Survey 2020-21 published on 10 June 2021 by the Government of Pakistan, Finance Division, Economic Advisor's Wing, Islamabad. The Pakistan Economic Survey, which is published each year a day 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 full year data series are provisionally provided. 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 2018-19** herein are to the labour force survey published in 2021 by the Government of Pakistan, Ministry of Planning, Development and Special Initiatives, Pakistan Bureau of Statistics, Islamabad. The Labour Force Survey 2018-19 presents information on labour force characteristics that have been collected from a representative sample of 41,184 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 International Monetary Fund (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.

U.S. INFORMATION

This Offering Circular is being submitted on a confidential basis in the United States to QIBs for informational use, solely in connection with the consideration of the purchase of certain Certificates issued under the Programme. Its use for any other purpose in the United States is not authorised. This Offering Circular may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

Certificates may be offered or sold within the United States only to QIBs in transactions exempt from registration under the Securities Act in reliance on, and in accordance with, Rule 144A or any other applicable exemption. Each U.S. purchaser of Certificates is hereby notified that the offer and sale of any Certificates to it may be being made in reliance upon the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.

Each purchaser or holder of Certificates represented by a Rule 144A Global Certificate or any Certificates issued in exchange or substitution therefor (together, Legended Certificates) will be deemed, by its acceptance or purchase of any such Legended Certificates, to have made certain representations and agreements intended to restrict the resale or other transfer of such Certificates as set out in "*Subscription and Sale and Transfer and Selling Restrictions*".

Unless otherwise stated, terms used in this paragraph have the meanings given to them in "*Form of Pricing Supplement*".

NEITHER THE PROGRAMME NOR THE CERTIFICATES HAVE 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 ANY OFFERING OF CERTIFICATES OR THE ACCURACY OR ADEQUACY OF THIS OFFERING CIRCULAR. ANY

REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

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 UK. As a result, it may not be possible for investors to effect service of process, within the United States and/or the UK, upon the Government or to enforce against it, in the United States courts or courts located in the UK, judgments obtained in United States courts or courts located in the UK, 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 laws 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 of Pakistan has, by notification, declared to be a reciprocating territory, it may be enforced in Pakistan as if the judgment has been rendered by a district 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:

- (i) 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;
- (ii) 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
- (iii) 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 (iii) 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 of Pakistan 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 of Pakistan three months after the date of such report.

NOTICE TO RESIDENTS IN THE ISLAMIC REPUBLIC OF PAKISTAN

Certificates to be issued under the programme will 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.

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 "*Service of process and enforcement of civil liabilities*", "*Enforcement of foreign judgments in Pakistan*" and "*Risk Factors—Risks relating to Enforcement*".

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, 1973 (as amended from time to time) which states, *inter alia*, that "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 IN THE UNITED KINGDOM

Any Certificates to be issued under the Programme which do not constitute "alternative finance investment bonds" (**AFIBs**) within the meaning of Article 77A of the Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) Order 2010 will represent interests in a collective investment scheme (as defined in the FSMA) which has not been authorised, recognised or otherwise approved by the FCA. Accordingly, this Offering Circular is not being distributed to, and must not be passed on to, the general public in the UK.

The distribution in the UK of this Offering Circular, any Pricing Supplement and any other marketing materials relating to the Certificates is being addressed to, or directed at: (A) if the distribution of the Certificates (whether or not such Certificates are AFIBs) is being effected by a person who is not an authorised person under the FSMA, only the following persons: (i) persons who are Investment Professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the **Financial Promotion Order**); (ii) persons falling within any of the categories of persons described in Article 49 (High net worth companies, unincorporated associations, etc.) of the Financial Promotion Order; and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Financial Promotion Order; and (B) if the Certificates are not AFIBs and the distribution is effected by a person who is an authorised person under the FSMA, only the following persons: (i) persons falling within one of the categories of Investment Professional as defined in Article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the **Promotion of CISs Order**); (ii) persons falling within any of the categories of person described in Article 22 (High net worth companies, unincorporated associations, etc.) of the Promotion of CISs Order; and (iii) any other person to whom it may otherwise be lawfully promoted.

Persons of any other description in the UK may not receive and should not act or rely on this Offering Circular, any Pricing Supplement or any other marketing materials in relation to any Certificates.

Prospective investors in the UK any Certificates are advised that all, or most, of the protections afforded by the UK regulatory system will not apply to an investment in such Certificates and that compensation will not be available under the UK Financial Services Compensation Scheme. Any prospective investor intending to invest in any investment described in this Offering Circular should consult its professional adviser and ensure that it fully understands all the risks associated with making such an investment and that it has sufficient financial resources to sustain any loss that may arise from such investment.

NOTICE TO RESIDENTS IN THE KINGDOM OF SAUDI ARABIA

This document may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Rules on the Offer of Securities and Continuing Obligations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the **Capital Market Authority**).

The Capital Market Authority does not make any representation as to the accuracy or completeness of this document, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document. Prospective purchasers of the securities offered hereby should conduct their own due diligence on the accuracy of the information relating to the securities. If you do not understand the contents of this document you should consult an authorised financial adviser.

NOTICE TO RESIDENTS IN MALAYSIA

Any Certificates to be issued under the Programme may not be offered for subscription or purchase and no invitation to subscribe for or purchase such 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 Part I of Schedule 6 or Section 229(1)(b), Part I of 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, as may be amended and/or varied from time to time and subject to any amendments to the applicable laws from time to time.

The Securities Commission of Malaysia shall not be liable for any non-disclosure on the part of the Trustee or the Government and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Offering Circular.

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SUMMARY

The summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and in relation to the terms and conditions of any particular Tranche of Certificates, the applicable Pricing Supplement. 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". The Trustee and any relevant Dealer(s) may agree that Certificates shall be issued in a form other than that contemplated in the Conditions of the Certificates, in which event, if appropriate, a supplement to this Offering Circular will be published.

Words and expressions defined in "Terms and Conditions of the Certificates" and "Summary of Provisions relating to the Certificates while in Global Form" shall have the same meanings in this overview.

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. Pakistan's current population estimate for 2020-21 is 211.9 million according to the Pakistan Bureau of Statistics. Over 96 per cent. of the population is Muslim. The capital of Pakistan is Islamabad. The national language is Urdu, which is also the official language.

Pakistan has a federal parliamentary system with the President as the Head of State. The current Government assumed office in August 2018 following a democratic transition of government. The Pakistan Tehreek-e-Insaf (**PTI**) received most seats in the National Assembly as a result of the election and formed a coalition Government that includes several small parties such as the Muttahida Qaumi Movement, the Pakistan Muslim League (Quaid-i-Azam) and the Grand Democratic Alliance. Dr Arif Alvi is currently President and Constitutional Head of State. The Government is headed by the Prime Minister, Mr Imran Khan.

According to the World Bank, in 2020 Pakistan's economy was the twenty-third largest in the world in terms of GDP measured at purchasing power parity and the forty-third largest in terms of nominal GDP. Pakistan is a rapidly developing country. In PwC's February 2017 report "The World in 2050; The Long View; How will the global economic order change by 2050?", Pakistan is projected to become the sixteenth largest economy in the world by 2050 (in terms of projected GDP rankings measured at purchasing power parity).

Pakistan's economy is semi-industrialised, with centres of growth along the Indus River, in Karachi and in major urban centres in the Punjab. The most prominent large-scale industries of Pakistan are textiles, cement, food and beverages, petroleum, steel, non-metallic minerals, automobiles, fertiliser, pharmaceuticals, paper, electronics, chemicals, leather, wood, engineering and rubber. Pakistan is one of the major producers of cotton in the world and cotton textile production and apparel manufacturing are Pakistan's largest industries. During the last couple of years, Pakistan has also made progress in strengthening the performance of other industries. These include automobiles, fertilisers, pharmaceuticals, steel, chemicals and cement.

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

Recent Macroeconomic and Fiscal Performance

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

	2016-17	2017-18	2018-19	2019-20	2020-21
Nominal GDP at market prices (Rupees million)	31,922,303	34,616,302	38,086,232 ⁽¹⁾	41,556,326 ⁽²⁾	47,709,325 ⁽³⁾
GNI at current market prices (Rupees million)	33,665,946	36,462,453	40,636,257 ⁽¹⁾	44,799,050 ⁽²⁾	52,222,614 ⁽³⁾
GDP at constant basic prices of 2005-2006 (Rupees million)	11,696,934	12,344,266	12,600,651 ⁽¹⁾	12,541,834 ⁽²⁾	13,036,381 ⁽³⁾
GDP growth at constant basic prices of 2005-2006 (%)	5.2	5.5	2.1 ⁽¹⁾	(0.5) ⁽²⁾	3.9 ⁽³⁾
Per capita income at factor cost market prices (Rupees)	170,672	181,441	198,565 ⁽¹⁾	215,060 ⁽²⁾	246,414 ⁽³⁾
Per capita GNI (U.S.\$)	1,630	1,652	1,459 ⁽¹⁾	1,361 ⁽²⁾	1,543 ⁽³⁾
Exports (U.S.\$ million) (BoP)	22,003	24,768	24,257	22,536	25,630
Imports (U.S.\$ million) (BoP)	48,001	55,671	51,869	43,645	53,818
Balance of trade (U.S.\$ million)	(25,998)	(30,903)	(27,612)	(21,109)	(28,188)
Workers' remittances (U.S.\$ million)	19,351	19,914	21,740	23,132	29,370
Current account balance (U.S.\$ million)	(12,270)	(19,195)	(13,434)	(4,449) ⁽²⁾	(1,916) ⁽³⁾
Current account balance (as % of GDP)	(4.0)	(6.1)	(4.8) ⁽¹⁾	(1.7) ⁽²⁾	(0.6) ⁽³⁾
Overall fiscal deficit (as % of GDP)	(5.8)	(6.5)	(9.0) ⁽¹⁾	(8.1) ⁽²⁾	(7.1) ⁽³⁾
Average inflation (%)	4.8 ⁽⁵⁾	4.7 ⁽⁵⁾	6.8 ⁽⁵⁾	10.7 ⁽⁵⁾	8.9 ⁽⁵⁾
Total investment at current market prices (as % of GDP)	16.2	17.3	15.6 ⁽¹⁾	15.3 ⁽²⁾	15.2 ⁽³⁾
Household final consumption expenditure at current prices (Rupees million)	26,148,647	28,400,347	31,547,687 ⁽¹⁾	32,949,371 ⁽²⁾	38,501,127 ⁽³⁾
National savings (as % of GDP)	12.0	11.3	10.8 ⁽¹⁾	13.6 ⁽²⁾	15.3 ⁽³⁾⁽⁴⁾

(1) Revised.

(2) Final.

(3) Provisional.

(4) For the July 2020 to March 2021 period.

(5) Average inflation for 2016-17, 2017-18, 2018-19, 2019-20 and 2020-21 is calculated on new base (2015-16).

Sources: The State Bank of Pakistan; Finance Division; Pakistan Bureau of Statistics.

The last five fiscal years have seen average GDP growth of 3.3 per cent; GDP growth stood at 3.9 per cent. in 2020-21, negative 0.5 per cent. in 2019-20, 2.1 per cent. in 2018-19, 5.5 per cent. in 2017-18 and 5.2 per cent. in 2016-17. The provisional GDP growth rate for fiscal year 2020-21 is estimated at 3.9 per cent, with the highest growth of 4.4 per cent. for services followed by industrial sector (3.6 per cent) and agricultural sector (2.8 per cent).

The growth prior to the fiscal year 2018-19 can be characterised as a consumption-led growth. The high level of borrowing from different sources increased both private and public consumption resulting in higher debt repayment liabilities, which created severe macroeconomic imbalances. Investment did not pick up as higher demand was met primarily through imports leading to an enormous rise in external imbalances. Furthermore, the work on "early harvest" CPEC infrastructure and power projects also led to an increase in development spending as well as in imports. The persistence of large fiscal and current account deficits and associated build-up of public and external debt became the major source of macroeconomic imbalance. The new Government that assumed office in August 2018 faced formidable macroeconomic challenges. The foremost challenge to the economy was the rising aggregate demand without corresponding resources to support it, leading to rising fiscal and external account deficits. To address the issue of severe macroeconomic instability and to put the economy on the path of sustained growth and stability, the Government has introduced a comprehensive set of economic and structural reform measures, including the implementation of a market based flexible exchange rate regime.

The Government has increased energy tariffs to stop further accumulation of circular debt, reduced imports through regulatory duties and removed certain tax relaxations given in the previous budget in order to stop the deterioration in the primary balance.

The Government negotiated a new agreement with the IMF with respect to the Extended Fund Facility for achieving macroeconomic stability. On 3 July 2019, the IMF Board approved a 39-month extended arrangement under the Extended Fund Facility for Pakistan for an amount of SDR4,268 million (approximately U.S.\$6 billion) to support the Government's economic reform programme. The IMF Board's approval allowed for an immediate disbursement of SDR716 million (or approximately U.S.\$1 billion). The remaining amount was scheduled to be phased over the duration of the programme, subject to both quarterly and semi-annual reviews.

On 19 December 2019, the IMF Board completed the first review of Pakistan's economic performance under the Extended Fund Facility. The completion of the review process allowed the Pakistani authorities to draw SDR 328 million (approximately U.S.\$452.4 million). The press release issued by the IMF on 19 December 2019 noted that Pakistan's economic reform programme was on track and that decisive policy implementation by the Pakistani authorities was helping to preserve economic stability aiming to put the economy on the path of sustainable growth.

As the new fiscal year 2019-20 started, the Pakistani economy started to witness a turnaround that confirmed that the Government has taken appropriate policy actions to address the macroeconomic imbalances. The stabilisation efforts paid off in terms of sustained adjustment in the current account deficit and the primary deficit. The current account posted a surplus in October 2019 for the first time in 48 months. Similarly, the Government was able to achieve a primary surplus of Rupees 286 billion in the first quarter of 2019-20.

The outbreak of COVID-19 during the second half of fiscal year 2019-20 brought numerous challenges for the economy that was in transition. Similar to the rest of the world, Pakistan's economy has been adversely affected by the COVID-19 outbreak, which resulted in, among other things, decline in domestic and global demand, downturn in tourism and business travel, disruption of trade and production links and supply disruptions. To support the economy, the Government announced a Rupees 1.24 trillion relief package at the end of March 2020. The SBP has also taken various steps, including a cumulative reduction in policy rate since mid-March 2020 by 625 basis point to 7 per cent. (where it remained until 20 September 2021), targeted refinancing schemes to: (a) protect the jobs of people working in the formal segment of the economy; (b) promote investment; and (c) facilitate the development of health-related infrastructure. In addition, some macroprudential measures were also introduced to maintain the financial stability and smooth functioning of the financial system.

In the fiscal year 2020-21, key domestic demand indicators showed significant improvements, particularly with respect to the domestic sale of petroleum products, automobiles and cement, all of which have reached or surpassed the pre-COVID-19 levels. Domestic sales of cement have reached the highest ever level in October 2020. In the fiscal year 2020-21, domestic sales of cement increased by 20.4 per cent. to 48.12 million tons as compared to 39.97 million tons in the fiscal year 2019-20. The sale of automobiles, which were significantly down for a period of 20 months, have witnessed a broad-based recovery on a year-on-year basis since July 2020. During the July 2020 to March 2021 period, the per month electricity consumption increased by 61 gigawatt hours as compared to the July 2019 to March 2020 period per month energy consumption. With respect to the supply-side indicators, the performance of the manufacturing and agriculture sectors also indicates a revival of economic activity. In the fiscal year 2020-21, the overall output of large-scale manufacturing industries (**LSMI**) grew by 14.9 per cent, in large part due to various measures taken by the Government to support the industrial sector. This improvement was due to better performance of some of the key sectors of LSMI, such as automobiles; non-metallic mineral products; chemicals; coke and petroleum products; iron and steel products; textiles; pharmaceuticals and food, beverages and tobacco. Ten out of 15 LSMI recorded positive growth in the fiscal year 2020-21 as compared to the fiscal year 2019-20. In July-October 2021-22, the output of LSMI increased by 3.56 per cent. as compared to July-October 2020-21.

In addition, in the fiscal year 2020-21, major *kharif* crops, except cotton, demonstrated encouraging performance. The increase in agricultural output is expected to further strengthen the overall economic outlook because of the linkages of this sector with agriculture-based and export-oriented businesses.

Second to fifth reviews of Pakistan's economic performance under the IMF's Extended Fund Facility were delayed due to the COVID-19 pandemic. The Government and the IMF, however, remained fully engaged during the pandemic with an intention to take the reform agenda forward. These reviews were completed successfully in March 2021 and, as a result, Pakistan received around U.S.\$500 million from the IMF.

Recent Developments

The following sets forth a summary of key recent developments:

Confidence Vote in the National Assembly on 6 March 2021. After the Senate elections held on 3 March 2021, in which the candidate nominated by the Government lost to the opposition nominee in the Senate race for the Islamabad general seat in a vote in the National Assembly, it was felt appropriate that the Prime Minister should take the vote of confidence in the National Assembly under Article 91(7) of the Constitution of the Islamic Republic of Pakistan. Accordingly, on 6 March 2021, the President of Pakistan summoned an exclusive session of the National Assembly requiring the Prime Minister to obtain a vote of confidence from the National Assembly. Prime Minister Imran Khan won the vote of confidence in the National Assembly by securing 178 votes as against 172 required to win confidence of the National Assembly.

The Outbreak of the COVID-19 Pandemic. The first case of COVID-19 in Pakistan was reported on 26 February 2020, with an initial lockdown extending from the second half of March 2020 until May 2020. By 2 June 2020, 76,398 cases with 1,621 deaths were reported in Pakistan. In the middle of the first wave of the COVID-19 outbreak in Pakistan, the Sub-committee of the National Coordination Committee for COVID-19 prepared an impact assessment of COVID-19 on the real sector of the economy, which, according to this assessment, was expected to contract by 0.4 per cent. in fiscal year 2019-20 as compared to an earlier projection of 3.3 per cent. growth. In April 2020, exports and imports decreased (year-on-year) by almost 54 per cent. and 32 per cent, respectively. While the decline in exports largely reflected lower external demand as well as low production activity domestically, the decline in imports most likely reflected low retail and wholesale trade. Similarly, sharp declines in tax collections and sales of automobiles, cement and petroleum products also indicated an across-the-board economic slowdown. In terms of the sectoral breakdown of GDP, the industrial and services sectors were particularly hard hit. In the first wave of COVID-19 (March-July 2020), approximately 37 per cent. of the working population of Pakistan, or 20.6 million people, either lost their jobs or could not work due to the lockdown and another 12 per cent. of the working population, or 6.7 million people, experienced a decrease in their incomes. Sindh was the most affected province, in which the working population was reduced to 23 per cent. during the April to July 2020 period, as compared to 38 per cent. before the outbreak of COVID-19, followed by Punjab with a 14 per cent. decrease in the working population.

The first wave of COVID-19 reached its peak in June 2020, after which the number of reported cases began to decrease. The second wave of COVID-19 commenced in late October 2020 followed by the third wave that commenced in March 2021 and the fourth wave that commenced in July 2021. By 12 January 2022, the number of confirmed cases of COVID-19 in Pakistan reached 1,309,248 (with 1,259,699 recoveries and 28,987 reported deaths from COVID-19).

Emergency Actions to Mitigate the Impact of the COVID-19 Pandemic. The Government has taken a number of emergency actions to contain the severe health risks and economic fall-out resulting from the COVID-19 pandemic. On 24 March 2020, the Prime Minister announced a comprehensive fiscal package structured by the Ministry of Finance that was aimed at supporting growth and protecting those

most affected by the containment measures. The package, amounting to Rupees 1,240 billion, contained: (i) sizable increases in health- and mitigation-related spending; (ii) significant allocations to support daily wage earners and exporters; (iii) funding for free shelter rations; (iv) allocations for subsidised food items and (v) support for small and medium enterprises and agriculture. Of this amount, Rupees 700 billion was spent in the fiscal year 2019-20. The balance of Rupees 540 billion became available to be spent on the relief measures in the fiscal year 2020-21 and Rupees 188 billion were in fact spent on various relief measures in 2020-21. Overall, the estimated impact of the fiscal stimulus package was equivalent to 3.0 per cent. of GDP.

The Government also launched under *Ehsaas* an Emergency Cash Programme aimed at providing immediate financial support to 14.8 million of the most vulnerable families.

At the same time, the State Bank of Pakistan (SBP) arranged multiple emergency meetings of the Monetary Policy Committee (MPC) to take frequent stock of the fast evolving situation and make decisions accordingly. The MPC cut the policy rate by 625 basis points from 17 March 2020 to 25 June 2020, which not only favourably repriced most of the existing loans by the private sector, but also made borrowing viable for firms that would otherwise have been priced out due to high interest rates and weakened repayment capacity. The SBP also rolled out multiple new schemes, including the deferment of principal repayments, subsidised financing for firms to pay salaries to their employees, relaxations in operational criteria for export-related refinance schemes and concessionary refinance facilities for investment projects and hospitals. Businesses have shown a keen interest in these financing schemes and actively used them to plug their cash flow gaps. Put together, the estimated liquidity impact of the SBP's relief measures commenced in March 2020 was equivalent to 5.0 per cent. of GDP.

Securing Assistance from the IMF. As a result of the COVID-19 outbreak, in April 2020 it became clear that growth was expected to contract sharply as the economy was adversely affected by demand and supply shocks. Exports and remittances were expected to decline sharply, which together with a temporary loss of market access created an urgent balance of payments need. In addition, public finances were expected to come under significant pressure from the sudden increase in health- and mitigation-related expenditures as well as the decline in tax revenues. In these circumstances, the Pakistani authorities requested financial assistance from the IMF under the Rapid Financing Instrument (RFI) in the amount of 50 per cent. of quota (SDR 1,015.5 million (approximately U.S.\$1,386 million)) to help address the urgent fiscal and balance of payments needs, while making these resources available to the budget to support the emergency policy response. On 16 April 2020, the IMF Board approved the disbursement of U.S.\$1,386 million under the RFI to Pakistan to address the economic impact of the COVID-19 shock.

At the same time, Pakistan and the IMF agreed at the time to temporarily put on hold the review process under the existing U.S.\$6 billion Extended Fund Facility and revise it after the peak of the COVID-19 pandemic is over. The 10 April 2020 staff report released by the IMF stated that "the RFI is the appropriate instrument to support Pakistan at this juncture as the severity of the shock and the uncertainty about the outlook make it difficult to recalibrate the existing Extended Fund Facility (the IMF EFF) to ensure that it remains on track to meet its objectives".

In February 2021, an IMF team concluded virtual discussions with the Pakistani authorities and reached a staff-level agreement on the second to fifth reviews of the Government's reform programme supported by the U.S.\$6 billion Extended Fund Facility. On 24 March 2021, the IMF Board completed the combined second through fifth reviews of the Extended Arrangement under the IMF EFF.

The Government believes that the agreed package achieved an appropriate balance between supporting the economy, ensuring debt sustainability and advancing structural reform. The approval by the IMF Board allowed for an immediate release of around U.S.\$500 million. The IMF team acknowledged that the COVID-19 shock temporarily disrupted Pakistan's progress under the IMF EFF-supported

programme. However, the Government's policies and allowing higher than expected COVID-related social spending have been critical in supporting the economy and saving lives and households.

On 23 August 2021, Pakistan received U.S.\$2.77 billion from the IMF. Prior to that, the IMF Board approved a general allocation of SDRs equivalent to U.S.\$650 billion to boost global liquidity. Pakistan's share of this amount was U.S.\$2.77 billion. The IMF released this amount to Pakistan unconditionally and the funds were transferred to the SBP to help to further strengthen the country's foreign exchange reserves.

On 21 November 2021, the IMF issued a statement confirming that the Pakistani authorities and IMF staff have reached a staff-level agreement on policies and reforms needed to complete the sixth review under the IMF EFF. The agreement is subject to approval by the IMF Board, following the implementation of prior actions, notably on fiscal and institutional reforms. Completion of the review would make available SDR 750 million (about U.S.\$1,059 million), bringing total disbursements under the IMF EFF to about U.S.\$3,027 million.

Improvement in Security Situation. As a result of the implementation of Pakistan's National Internal Security Policy 2014-2018 and National Internal Security Policy 2018-2023, its National Action Plan, the measures adopted by the new Government that assumed office in August 2018 and the successful *Zarb-e-Azab* and *Radd-ul-Fasad* operations of the armed forces, commenced in June 2014 and February 2017, respectively, there has been a significant reduction in the number of terrorist incidents reported in the country. According to the most recent information from the National Counter Terrorism Authority, the number of terrorist incidents decreased from 1,816 in 2014 to 1,139 in 2015, 785 in 2016, 741 in 2017, 584 in 2018, 482 in 2019 and 381 in 2020. This improvement in the security situation helped to improve the investment climate, boosted economic activity in many parts of Pakistan and is expected to increase the country's attractiveness to foreign investors. See "*The Islamic Republic of Pakistan – Fight Against Extremism*".

Status of the action plan with the FATF. Owing to shortcomings in effectively addressing terrorist financing risks, Pakistan was placed in the FATF's *Jurisdictions under Increased Monitoring* commonly known as the "Grey List" in June 2018. Since inclusion in the "Grey List", Pakistan has undertaken considerable actions to address the problems identified by the FATF, while undergoing periodic reviews by the FATF. As at October 2021, Pakistan has been rated "largely addressed" on 26 of 27 action items in the action plan agreed with the FATF in 2018 (the **2018 action plan**), including all action items relating to its financial sector. At its last plenary meeting in October 2021, the FATF encouraged Pakistan to continue to make progress to address as soon as possible the one remaining counter financing of terrorism-related item in the 2018 action plan by continuing to demonstrate that terrorist financing investigations and prosecutions target senior leaders and commanders of UN designated terrorist groups.

In response to deficiencies identified in Pakistan's 2019 APG Mutual Evaluation Report, in June 2021, Pakistan provided further high-level commitment to address these strategic deficiencies pursuant to a new action plan that primarily focuses on combating money laundering. Since June 2021, Pakistan has taken swift steps towards improving its anti-money laundering/counter financing of terrorism regime, including by enacting legislative amendments to enhance its international cooperation framework; demonstrating designated non-financial business and professions monitoring for proliferation financing targeted financial sanctions and designated non-financial business and professions supervision commensurate with the risks; and applying sanctions for non-compliance with beneficial ownership requirements. The FATF asked Pakistan to continue to work to address its other strategically important anti-money laundering/counter financing of terrorism deficiencies, in particular by: (i) providing evidence that it actively seeks to enhance the impact of sanctions beyond its jurisdiction by nominating additional individuals and entities for designation at the UN; and (ii) demonstrating an increase in money laundering investigations and prosecutions and that proceeds of crime continue to be restrained

and confiscated in line with Pakistan's risk profile, including working with foreign counterparts to trace, freeze and confiscate assets.

Developments Related to the Exchange Rate System. With the goal of correcting imbalances in Pakistan's economy, maintaining competitiveness of exports and supporting the build-up of foreign exchange reserves, the SBP introduced a flexible, market-determined exchange rate system in May 2019. The SBP believes that a flexible market-determined exchange rate will help to modernise the foreign exchange regime and the functioning of financial markets and contribute to a better allocation of resources in the economy. Further, it will help to reduce accumulated external imbalances, provide a buffer against shocks and support the rebuilding of the country's international reserves position. Under the flexible market-determined exchange rate, SBP interventions in the foreign exchange market are limited to preventing disorderly market conditions, but not suppressing the trend.

Developments Related to Current Account Balance. Pakistan's current account deficit decreased to 4.8 per cent. of GDP in 2018-19 and then further decreased to 1.7 per cent. of GDP in 2019-20. Lower imports of goods and higher remittances contributed to the narrower deficit. Imports of goods decreased by 6.8 per cent. in 2018-19 as compared to 2017-18 to U.S.\$51.9 billion, largely due to the impact of policy measures ranging from exchange rate depreciation and policy rate hikes to higher import duties on non-essential items, while workers' remittances increased by 9.2 per cent. to U.S.\$21.7 billion. In 2019-20, imports declined by a further 15.9 per cent. to U.S.\$43.6 billion as a result of the continuation of stabilisation measures and COVID-19-related reduction in demand, while workers' remittances increased by 6.4 per cent. to U.S.\$23.1 billion. The largely positive dynamics in the current account was not supported by higher exports of goods, the value of which decreased by 2.1 per cent. in 2018-19 as compared to 2017-18. Exports of goods declined by a further 7.1 per cent. in 2019-20 as compared to 2018-19.

In 2020-21, current account deficit narrowed to U.S.\$1.9 billion (0.6 per cent. of GDP) as compared to the deficit of U.S.\$4.4 billion in the previous fiscal year (1.7 per cent. of GDP). The main driver of improvement in current account balance was the robust growth in remittances. Even during the global economic crisis due to the COVID-19 pandemic, the inflows accelerated to all-time high of U.S.\$29.4 billion in 2020-21, posting a year-on-year growth of 27.0 per cent. as compared to 2019-20. Timely measures by the Government and the SBP to popularise the use of formal channels for the transfer of funds contributed to this development and its continuation is adding sustainability to remittance inflows. Concurrently, primary income account also provided cushion to improve current account balance. The lower interest payments and deferment of debt repayment (both interest and principal) under the G-20 Debt Service Suspension Initiative (**DSSI**) have contributed to improve the balance of primary income as the deficit declined from U.S.\$5.5 billion during 2019-20 to U.S.\$4.6 billion during 2020-21. The services trade deficit shrank by 41.0 per cent. mainly because of strong demand for telecommunications services amidst lockdown and air travel restrictions. On the contrary, trade deficit in goods widened due to significantly higher cost of imports of capital goods and industrial raw materials, as the economy started to recover from the adverse impact of the COVID-19 pandemic and international prices of commodities increased. In addition, import of agricultural commodities like sugar, wheat and cotton due to shortages in production and imports of COVID vaccines were other major contributors to the widening of the trade deficit from U.S.\$21.1 billion in 2019-20 to U.S.\$28.2 billion in 2020-21. These trends appear to continue in 2021-22. Imports continue to increase amid strengthening domestic economic activity and elevated global commodity prices, which was the principal reason for the increase in the current account deficit to U.S.\$7,089 million in July-November of the fiscal year 2021-22 as compared to a surplus of U.S.\$1,876 million in July-November of the fiscal year 2020-21. Continuous surge in remittance inflows, however, is helping to contain current account deficit. See "*Risk Factors – The current account deficit may negatively affect Pakistan's ability to meet its external obligations*" and "*Balance of Payments and Foreign Trade*".

Developments Related to Foreign Exchange Reserves. The SBP's net liquid foreign exchange reserves were adversely affected by significant current account deficits in past years and declined to U.S.\$7.3 billion as at 30 June 2019 (equating to 1.6 months' worth of imports of goods and services) from U.S.\$9.8 billion as at 30 June 2018 and U.S.\$16.1 billion as at 30 June 2017. Moreover, the SBP's forward-swap short position also increased to U.S.\$8.0 billion as at 30 June 2019 from U.S.\$7.0 billion as at 30 June 2018. In May 2019, the SBP implemented a flexible market-determined exchange rate system. The SBP only intervenes in the foreign exchange market to prevent disorderly market conditions, while at the same time not suppressing any underlying trend and in a manner consistent with rebuilding reserves. The implementation of a flexible market-determined exchange rate system along with other policy measures helped to bring marked improvement in the current account, which registered a 10-year low of U.S.\$1.8 billion during 2020-21. This has enabled the SBP to build its foreign exchange reserves. The SBP's net foreign exchange reserves increased to U.S.\$12.1 billion as at 30 June 2020, U.S.\$17.3 billion as at 30 June 2021 and U.S.\$17.7 billion as at 31 December 2021, while total liquid foreign exchange reserves increased to U.S.\$18.9 billion as at 30 June 2020 and to U.S.\$24.4 billion as at 30 June 2021 before decreasing to U.S.\$24.0 billion as at 31 December 2021. The SBP's forward-swap short position decreased from U.S.\$8.0 billion as at 30 June 2019 to U.S.\$5.8 billion as at 30 June 2020 and further decreased to U.S.\$4.9 billion as at 30 June 2021.

Developments Related to Fiscal Deficit. In 2020-21, the primary fiscal deficit decreased to 1.4 per cent. of GDP as compared to 1.8 per cent. in 2019-20 and the fiscal deficit decreased to 7.1 per cent. of GDP as compared to 8.1 per cent. of GDP in 2019-20. In the fiscal year 2020-21, total revenue grew by 10.1 per cent. as compared to the growth of 28.0 per cent. in the fiscal year 2019-20. In absolute terms, total revenue increased to Rupees 6,903 billion in 2020-21 from Rupees 6,272 billion in 2019-20 principally due to growth in tax revenue. Total tax revenue (federal and provincial) grew by 11.1 per cent. in 2020-21 and amounted to Rupees 5,273 billion as compared to Rupees 4,748 billion in 2019-20. Within the total, federal tax collection witnessed a significant increase as it grew by 9.9 per cent. to reach Rupees 4,764 billion in 2020-21 period as compared to Rupees 4,334 billion in 2019-20. The revenue performance is not only a reflection of growing economic activities, but it also suggests that the efforts to improve tax collection through various policy and administrative reforms have been successful. Non-tax revenue grew by 7.0 per cent. in 2020-21 after witnessing an even stronger growth 2019-20. Non-tax revenue amounted to Rupees 1,631 billion in 2020-21 as compared to Rupees 1,524 billion in 2019-20.

In 2020-21, total expenditure grew by 6.8 per cent. as compared to a 15.6 per cent. growth observed in 2019-20. The efficient expenditure management helped in curtailing the overall expenditure during 2020-21. In absolute terms, the expenditures stood at Rupees 10,307 billion (21.6 per cent. of GDP) in 2020-21 as compared to Rupees 9,648 billion (23.2 per cent. of GDP) in 2019-20. The current expenditure grew at 6.5 per cent. in 2020-21 as compared to the growth of 20.1 per cent. growth recorded in 2019-20. In absolute terms, current expenditure amounted to Rupees 9,084 billion in 2020-21 period as compared to current expenditure of Rupees 8,532 billion in 2019-20. The interest payments (debt servicing) grew by 5.0 per cent. in 2020-21 on account of higher growth in domestic debt servicing. In absolute terms, interest payments increased to Rupees 2,750 billion in 2020-21 from Rupees 2,620 billion in 2019-20. Higher domestic debt servicing was observed during the 2020-2021 as a result of higher amount of government domestic debt (Rupees 26.3 trillion as at 30 June 2021 as compared to Rupees 23.3 trillion as at 30 June 2020) that was increased to finance the federal fiscal deficit. On the other hand, the foreign debt servicing witnessed a significant decrease in 2020-21 decreasing to Rupees 225.9 billion as compared to Rupees 306.6 billion in 2019-20 principally due to re-fixing of floating rate debt at much lower rates due to substantial decrease in international reference rates (such as LIBOR), exchange rate appreciation (Rupee strengthening) and interest servicing deferment through the Debt Service Suspension Initiative (**DSSI**). The total development expenditure (excluding net lending) amounted to Rupees 1,239 billion in 2020-21 as compared to Rupees 1,155 billion in 2019-20.

Developments Related to Public Debt. Pakistan's gross public debt as at 30 September 2001 was Rupees 41,466 billion (77.0 per cent. of GDP based on the projected GDP of Rupees 53,876 billion for the fiscal year 2021-22) as compared to was Rupees 39,861 billion as at 30 June 2021 (83.5 per cent. of GDP) and Rupees 36,399 billion as at 30 June 2020 (87.6 per cent. of GDP). As at 30 September 2021, government domestic public debt was Rupees 26,444 billion (49.1 per cent. of GDP based on the projected GDP of Rupees 53,876 billion for the fiscal year 2021-22), while government external debt (including debt from the IMF) amounted to Rupees 15,022 billion (27.9 per cent. of GDP based on the projected GDP of Rupees 53,876 billion for the fiscal year 2021-22). As at 30 June 2021, government domestic public debt was Rupees 26,265 billion (55.1 per cent. of GDP), while government external debt (including debt from the IMF) amounted to Rupees 13,595 billion (28.5 per cent. of GDP). The increase in public debt during 2020-21 was smaller than the increase recorded during 2019-20. In terms of GDP, the gross public debt decreased by 4.1 percentage points to 83.5 per cent. of GDP by 30 June 2021 as compared to 30 June 2020.

Investments in CPEC Projects. The China-Pakistan Economic Corridor (CPEC) programme, which was launched in April 2015 during Chinese President Xi Jinping visit to Pakistan, has significantly supported the development of Pakistan's economy. The nine power generation projects that have already been commissioned have an aggregate generation capacity of 5,320 MW and provide approximately 13 per cent. of the overall rated power generation capacity of Pakistan. Another seven power generation projects with an aggregate generation capacity of 4,484 MW and a high voltage direct current transmission line from Lahore to Matiari are under different implementation stages, and all of them are expected to be commissioned by 2025. Three of the large CPEC transportation infrastructure projects have already been completed. These include: the construction of the 392 km Multan-Sukkur section of the Karachi-Peshawar Motorway at a cost of U.S.\$2,889 million, which achieved commercial operation in November 2019; the construction of the 120 km Thakot-Havelian section of the Karakoram Highway at a cost of U.S.\$1,315 million, which achieved commercial operation in July 2020; and the construction of the 27 km Orange Line Metro Train project at a cost of U.S.\$1.6 billion, which achieved commercial operation in October 2020. 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 development of the trans-shipment trade in the region. Total estimated cost of the ten principal Gwadar Port projects amounts to U.S.\$1,377 million. CPEC projects continue to provide a strong support for economic growth in Pakistan, particularly for the construction industry. See "*Overview of Pakistan's Economy – China-Pakistan Economic Corridor (CPEC)*".

Increases in Electricity Generation Capacity and Other Developments in the Energy Sector. Pakistan has successfully removed bottlenecks in electricity generation in 2013-21 by adding a cumulative capacity of 17,206 MW. However, congestion, inefficiency and lack of infrastructure on the transmission and distribution side of the supply chain have hampered sustained delivery of electricity and energy services. Other significant shortcomings of the power sector include insufficient collections, weak governance and regulatory deficiencies. These shortcomings translate into distortions and losses and the accumulation of cash flow shortfalls, or circular debt. Approximately Rupees 538 billion and Rupees 130 billion were accumulated in the fiscal year 2019-20 and the fiscal year 2020-21, respectively, increasing the total amount of circular debt to Rupees 2,150 billion as at 30 June 2020 and Rupees 2,280 billion as at 30 June 2021. As part of a comprehensive energy sector reform, the Government has already implemented an automatic quarterly tariff adjustment scheme to raise additional revenues to reduce circular debt. Other measures in the comprehensive energy sector reform that have already been adopted include re-basing of consumer end tariffs, restructuring of boards of directors of power sector entities (distribution companies, National Transmission & Despatch Company and Pakistan Electric Power Company), signing of performance contracts with the public sector enterprises and re-targeting subsidies. See "*Overview of Pakistan's Economy – Energy in Pakistan*".

Sound Banking System. The overall performance of the banking sector, which dominates the financial services sector of Pakistan, remained relatively strong over the last few years despite macroeconomic

challenges, ongoing COVID-19 pandemic and other structural issues. Its asset base stood at Rupees 28.2 trillion as at 30 June 2021. Asset growth in the banking sector between 30 June 2020 and 30 June 2021 was 18.9 per cent. as compared to 14.4 per cent. asset growth between 30 June 2019 and 30 June 2020. This asset growth between 30 June 2020 and 30 June 2021 was primarily due to the strong increase in investments (by 29.0 per cent). Advances grew by 9.2 per cent. between 30 June 2020 and 30 June 2021 as compared to the contraction of 0.5 per cent. between 30 June 2019 and 30 June 2020. Deposits experienced robust growth of 17.5 per cent. between 30 June 2020 and 30 June 2021 as compared to 14.3 per cent. growth between 30 June 2019 and 30 June 2020. Such strong inflow of deposits was principally due to the revival in economic activity and the increase in workers' remittances.

Despite the impact of the COVID-19 pandemic, the credit risk indicators have improved and banks' capital levels remained well above both minimum regulatory requirements and international standards. This was helped by the SBP's various policy measures, such as the deferment of principal payments and restructuring/rescheduling of loans as well as the strong capital and liquidity cushions of banks which were built over time under a prudent regulatory regime that duly includes Basel-III regulatory reforms. With the rise in advances and contained increase in non-performing loans (NPLs), the gross NPLs to loans ratio declined to 8.9 per cent. as at 30 June 2021 from 9.7 per cent. as at 30 June 2020. Due to the prudent approach adopted by banks during the COVID-19 dynamics, provisions (both specific provisions for classified assets and general provisions to cover prospective losses) increased resulting in an increase in the provisions coverage ratio (provisions to NPLs) to 88.8 per cent. as at 30 June 2021 as compared to 81.6 per cent. as at 30 June 2020. As a result, the level of net non-performing loans (NNPLs) decreased to Rupees 95.4 billion as at 30 June 2021 from Rupees 155.5 billion as at 30 June 2020, while NNPLs to net loans ratio decreased to 1.1 per cent. as at 30 June 2021 (from 1.9 per cent. as at 30 June 2020), indicating reduction in risks to the solvency from the delinquent loans.

Prudent risk-based regulations have helped the banking sector to maintain a strong solvency profile. CAR slightly decreased to 18.3 per cent. as at 30 June 2021 from 18.7 per cent. as at 30 June 2020.

The earnings of the banking sector experienced a small increase of 0.3 per cent. in the six months ended 30 June 2021 as compared to the six months ended 30 June 2020, with profit before tax amounting to Rupees 217.3 billion in the six months ended 30 June 2021 as compared to Rupees 216.6 billion in the six months ended 30 June 2020. However, as the growth in earnings was driven by the increase in the volume of assets in the context of a low interest rate environment, the earnings indicators (return on assets and return on equity) showed decreases in the six months ended 30 June 2021 as compared to the six months ended 30 June 2020. See "*Overview of Pakistan's Economy – Principal Sectors of the Economy – Services Sector – Financial Services*".

Overview of the Programme

Government	The President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan.
Trustee	The Pakistan Global Sukuk Programme Company Limited (Corporate Unique Identification No. 0187537), a public limited liability company incorporated in Pakistan on 5 November 2021 under the Companies Act 2017 (Act No. XIX of 2017), having its registered office at Room 115, S-Block, Debt Policy Coordination Office, Ministry of Finance, Pakistan Secretariat, Islamabad, Pakistan.
Legal Entity Identifier (LEI) of the Trustee	213800X5OY6CVYNY1M70.
Ownership of the Trustee	The Trustee is wholly-owned by the Government.
Risk Factors	There are certain factors that may affect the Trustee's ability to fulfil its obligations under Certificates issued under the Programme and the Government's obligations under the Transaction Documents to which it is a party. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Certificates issued under the Programme and risks relating to the structure of a particular Series of Certificates issued under the Programme. All of these are set out under " <i>Risk Factors</i> ".
Description	Trust Certificate Issuance Programme.
Arrangers	Credit Suisse (Singapore) Limited Deutsche Bank AG, London Branch Dubai Islamic Bank PJSC Standard Chartered Bank
Dealers	Credit Suisse (Singapore) Limited Deutsche Bank AG, London Branch Dubai Islamic Bank PJSC Standard Chartered Bank and any other Dealers appointed in accordance with the Programme Agreement from time to time.
Delegate	BNY Mellon Corporate Trustee Services Limited (the Delegate). In accordance with the Master Trust Deed, the Trustee will, <i>inter alia</i> , unconditionally and irrevocably appoint the Delegate to be its delegate and attorney and to exercise certain present and future rights, powers, authorities and discretions vested in the Trustee by certain provisions of the Master Trust Deed in accordance with the terms of the Master Trust Deed. In particular, the Delegate shall be entitled to (and, in certain circumstances, shall, subject to being indemnified and/or secured and/or pre-funded to its satisfaction, be obliged to) take enforcement action in the

name of the Trustee against the Government (in any capacity) following a Dissolution Event.

Principal Paying Agent, Exchange Agent and Transfer Agent.....	The Bank of New York Mellon, London Branch.
Registrar	The Bank of New York Mellon SA/NV, Dublin Branch.
Programme Size	The Programme is unlimited in amount.
Method of Issue	The Certificates may be issued on a syndicated or non-syndicated basis. The specific terms of each Series will be recorded in the applicable Pricing Supplement.
Issuance in Series	Certificates will be issued in Series. Each Series may comprise one or more Tranches issued on different Issue Dates. The Certificates of each Series will have the same terms and conditions or terms and conditions which are the same in all respects, save for the amount and the date of the first payment of Periodic Distribution Amounts thereon and the date from which Periodic Distribution Amounts start to accrue.
Currencies.....	Subject to any applicable legal or regulatory restrictions, Certificates may be denominated in any currency (each a Specified Currency) agreed between the Trustee, the Government and the relevant Dealer.
Maturities.....	The Certificates will have such maturities as may be agreed between the Trustee, the Government and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Trustee, the Government or the Specified Currency.
Issue Price.....	Certificates may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par, as specified in the applicable Pricing Supplement. The price and amount of Certificates to be issued under the Programme will be determined by the Trustee, the Government and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.
Denomination of Certificates	The Certificates will be issued in such denominations as may be agreed between the Trustee, the Government and the relevant Dealer(s) save that (a) the minimum denomination of each Certificate will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Specified Currency; (b) the minimum denomination of each Certificate will be at least €100,000 (or, if the Certificates are denominated in a currency other than Euros, the equivalent amount in such currency, as calculated on the

Issue Date of such Series); and (c) unless otherwise permitted by such current laws and regulations, Certificates (including Certificates denominated in sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Trustee in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the FSMA will have a minimum denomination of £100,000 (or, if the Certificates are denominated in a currency other than sterling, the equivalent amount in such currency, as calculated on the Issue Date of such Series).

Unless otherwise stated in the applicable Pricing Supplement, the minimum denomination of any Certificates to be sold in the United States to QIBs will be U.S.\$200,000 or its approximate equivalent in other Specified Currencies.

Status of the Certificates

The Certificates will represent an undivided ownership interest in the Trust Assets of the relevant Series, subject to the terms of the Trust Deed and the Conditions, and will be limited recourse obligations of the Trustee. Each Certificate will constitute unsecured obligations of the Trustee and shall at all times rank *pari passu*, without any preference or priority with the other Certificates of the relevant Series.

The payment obligations of the Government (in any capacity) to the Trustee under the Transaction Documents to which it is a party in respect of each Series of Certificates will constitute direct, unconditional and (subject to Condition 5) unsecured obligations of the Government and shall at all times rank *pari passu* with all other present and future unsecured and unsubordinated External Indebtedness of the Government provided, further, that the Government shall have no obligation to effect equal and rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due under the Transaction Documents and *vice versa*. The due and punctual performance of the obligations of the Government with respect thereto is backed by the full faith and credit of the Government.

Trust Assets

The Trust Assets of the relevant Series will be (a) the cash proceeds of the issue of the relevant Series of Certificates, pending application thereof in accordance with the terms of the Transaction Documents; (b) all of the Trustee's rights, title, interest, benefits and entitlements, present and future, in, to and under the Lease Assets; (c) all of the Trustee's rights, title, interest, benefits and entitlements, present and future, in, to and under the Transaction Documents (excluding the covenant given to the Trustee pursuant to clause 13.1 of the Master Trust Deed); (d) all monies

standing to the credit of the relevant Transaction Account from time to time; and all proceeds of the foregoing listed (a) to (d) (the **Trust Assets**).

Periodic Distribution Amounts Certificateholders are entitled to receive Periodic Distribution Amounts, out of amounts transferred to the Transaction Account pursuant to the terms of the Transaction Documents, calculated on the basis specified in the applicable Pricing Supplement.

Fixed Rate Certificates Fixed Rate Certificates will bear profit on their outstanding face amount at such fixed rate per annum and on such date or dates as may be agreed between the Trustee, the Government and the relevant Dealer(s), calculated in accordance with such Day Count Fraction (but only if the profit is to be calculated in respect of a period of less than a full Return Accumulation Period) as may be agreed between the Trustee, the Government and the relevant Dealer(s). See Condition 8(a).

Floating Rate Certificates..... Floating Rate Certificates will bear profit on their outstanding face amount at such floating rate *per annum* as may be determined:

- (a) on the same basis as the floating rate under a notional profit rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the relevant Series of Certificates) plus or minus the applicable margin; or
- (b) on the basis of the relevant Reference Rate as adjusted for any applicable margin.

The margin (if any) relating to such floating rate will be agreed between the Trustee, the Government and the relevant Dealer(s) for each Series of Floating Rate Certificates.

Such profit will be paid on such date or dates as may be agreed between the Trustee, the Government and the relevant Dealer(s) and will be calculated on the basis of such Day Count Fraction as may be agreed between the Trustee, the Government and the relevant Dealer(s).

Floating Rate Certificates may also have a maximum profit rate, a minimum profit rate or both.

See Condition 8(b).

Benchmark Discontinuation	In the event that a Benchmark Event occurs, such that any Profit Rate (or the relevant component part thereof) cannot be determined by reference to the original benchmark or screen rate (as applicable) specified in the applicable Pricing Supplement, then the Trustee and the Government may (subject to certain conditions) be permitted to substitute such benchmark and/or screen rate (as applicable) with a successor, replacement or alternative benchmark and/or screen rate (with consequent amendment to the terms of such Series of Certificates and, potentially, the application of an Adjustment Spread (which could be positive, negative or zero)). See Condition 8(c) (<i>Periodic Distribution Amounts – Benchmark Replacement</i>) for further information.
Negative Pledge	The Certificates will have the benefit of a negative pledge granted by the Government, as described in Condition 5.
Cross-Acceleration	In respect of the Government, the Certificates will have the benefit of a cross-acceleration provision, as described in Condition 13 and paragraph (d) of the definition of Government Event corresponding thereto.
Dissolution on the Scheduled Dissolution Date	Unless the Certificates are previously redeemed or purchased and cancelled, the Trustee will redeem each Certificate at the relevant Dissolution Distribution Amount on the relevant Scheduled Dissolution Date specified in the applicable Pricing Supplement for such Series and the Trust in relation to the relevant Series will be dissolved by the Trustee following the payment of all such amounts in full.
Dissolution Distribution Amount.....	In relation to each Certificate of a Series, either: <ul style="list-style-type: none"> (a) the sum of: <ul style="list-style-type: none"> (i) the outstanding face amount of such Certificate; and (ii) any accrued but unpaid Periodic Distribution Amounts for such Certificate; or (b) such other amount specified in the applicable Pricing Supplement as being payable upon the relevant Dissolution Date.
Early Dissolution	The Certificates may be redeemed in whole prior to the Scheduled Dissolution Date upon the: <ul style="list-style-type: none"> (a) exercise of an Optional Dissolution Right (if so specified in the applicable Pricing Supplement); (b) occurrence of a Total Loss Event; or

(c) occurrence of a Dissolution Event,

in each case, at the relevant Dissolution Distribution Amount on the relevant Dissolution Date.

Dissolution Events..... The Dissolution Events are described in Condition 1. Following the occurrence and continuation of a Dissolution Event in respect of a Series of Certificates, the Certificates may be redeemed in whole, but not in part, at the relevant Dissolution Distribution Amount on the Dissolution Event Redemption Date in the manner described in Condition 13.

Optional Dissolution Right..... If so specified in the applicable Pricing Supplement, the Government may, in accordance with Condition 9(b), require the Trustee to redeem the Certificates of the relevant Series in whole, but not in part, at the relevant Dissolution Distribution Amount on any Optional Dissolution Date.

If applicable to the relevant Series, the Optional Dissolution Date(s) will be specified in the applicable Pricing Supplement.

Total Loss Event..... Following the occurrence of a Total Loss Event in respect of a Series of Certificates, the relevant Supplemental Lease Agreement and the lease shall be automatically terminated on the date of occurrence of such Total Loss Event (and further payments of rental shall cease to accrue on such date of occurrence of the Total Loss Event) in accordance with the Master Lease Agreement. The Certificates of the relevant Series will be redeemed in full at the relevant Dissolution Distribution Amount on the Total Loss Dissolution Date in accordance with Condition 9(c).

Following the occurrence of a Total Loss Event in respect of a Series of Certificates and from the date of the Trading Notice and until any further notice from the Trustee stating otherwise, in consultation with the Shari'a Adviser, the Certificates of the relevant Series should be tradable only in accordance with the Shari'a principles of debt trading.

Partial Loss Event..... Following the occurrence of a Partial Loss Event in respect of a Series of Certificates and provided that:

(a) the Lease Assets have not been replaced in accordance with the Service Agency Agreement and a notice of termination (such notice, a **Partial Loss Termination Notice**) of the lease on the 61st day after the date of occurrence of a Partial Loss Event has been delivered by the Government to the Trustee within 30 days following the occurrence of the Partial Loss Event in accordance with the Master Lease Agreement and the relevant Supplemental Lease Agreement; or

(b) the Lease Assets have not been replaced in accordance with the Service Agency Agreement,

the relevant Supplemental Lease Agreement and the lease shall be automatically terminated on the 61st day following the occurrence of the Partial Loss Event (and further payments of rental shall cease to accrue on such 61st day following the occurrence of the Partial Loss Event) in accordance with the Master Lease Agreement (such termination as a result of either of the circumstances described in (a) or (b), being a **Partial Loss Dissolution Event**). A Partial Loss Dissolution Event shall constitute a **Government Event**, which in turn shall constitute a **Dissolution Event**.

Cancellation of Certificates held by the Government.....

Pursuant to Condition 9(e), the Government may at any time purchase Certificates in the open market or otherwise. If the Government wishes to cancel such Certificates purchased by it, the Government may do so in accordance with Condition 9(f).

Limited Recourse

Each Certificate of a particular Series will represent an undivided ownership interest in the Trust Assets for such Series. No payment of any amount whatsoever shall be made in respect of the Certificates except to the extent that funds for that purpose are available from the relevant Trust Assets.

Certificateholders have no recourse to any assets of the Trustee (and/or its directors, officers or agents in their capacity as such) (other than the relevant Trust Assets) or the Delegate or any Agent or any of their respective directors, officers, employees or agents in respect of any shortfall in the expected amounts from the relevant Trust Assets to the extent the relevant Trust Assets have been exhausted, following which all obligations of the Trustee shall be extinguished.

See further Condition 4(b).

Form and Delivery of the Certificates.....

The Certificates will be issued in registered form only. The Certificates of each Series will be represented on issue by ownership interests in one or more Global Certificates, which will be deposited with, and registered in the name of a nominee for, DTC and/or a Common Depository for Euroclear and Clearstream, Luxembourg (as applicable).

Certificates sold in an offshore transaction within the meaning of Regulation S will initially be represented by an unrestricted Global Certificate (a **Regulation S Global Certificate**) and Certificates sold to QIBs in reliance on Rule 144A will initially be represented by one or more restricted Global Certificates (a **Rule 144A Global Certificate**).

Ownership interests in a Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by DTC, Euroclear and Clearstream, Luxembourg (as applicable), and their respective participants. Certificates in definitive form evidencing holdings of Certificates will be issued in exchange for interests in the relevant Global Certificate only in certain limited circumstances. "*Summary of Provisions relating to the Certificates while in Global Form*".

Withholding Tax

All payments in respect of the Certificates shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Relevant Jurisdiction, unless such withholding or deduction is required by law. In that event, the Trustee has agreed to pay such additional amounts as shall be necessary in order that the net amounts received by them after such withholding or deduction shall equal the respective amounts which would otherwise have been receivable by them in the absence of such withholding or deduction, subject to and in accordance with Condition 11.

Further, in accordance with the terms of the Master Trust Deed, the Government has unconditionally and irrevocably undertaken to (irrespective of the payment of any fee), as a continuing obligation, in the event that the Trustee fails to comply with any obligation to pay additional amounts pursuant to Condition 11, pay to or to the order of the Delegate (for the benefit of the Certificateholders) such net amounts as are necessary so that the amount receivable by the Delegate (after any such withholding or deduction) equals any and all additional amounts, required to be paid by it in respect of the Certificates pursuant to Condition 11.

The Transaction Documents to which it is a party provide that payments thereunder by the Government shall be made without set-off or counterclaim of any kind and without any withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, unless such withholding or deduction is required by law. In that event, the Transaction Documents to which it is a party provide for the payment by the Government of all additional amounts as will result in the receipt by the Trustee or the Delegate, as applicable, of the net amounts as would have been receivable by it if no such withholding or deduction had been made.

**Meetings of Certificateholders,
Modification and Waiver**

The terms of the Certificates contain a "collective action" clause, which permits defined majorities to bind all Certificateholders. If the Trustee or the Government issues securities that contain collective action clauses in

substantially the same form as the collective action clause in the terms of the Certificates, the Certificates would be capable of aggregation for voting purposes with any such securities, thereby allowing "cross-series" modifications to the Conditions of all affected Series of Certificates (even, in some circumstances, where majorities in certain Series did not vote in favour of the modifications being voted on).

See Conditions 15 and 16 and "*Risk Factors—Risks relating to the Certificates—The Conditions contain provisions, which permit their modification without the consent of all the Certificateholders*".

Rating..... Series of Certificates issued under the Programme may be rated by Fitch and/or Moody's or may be unrated. Where a Series of Certificates is rated, such rating will be disclosed in the applicable Pricing Supplement. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

Listing and Admission to Trading... Application has been made for the Certificates to be admitted to trading on the ISM.

Certificates may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets, as the case may be, agreed between the Trustee, the Government and the relevant Dealer. Certificates which are neither listed nor admitted to trading on any market may also be issued.

The applicable Pricing Supplement will state whether or not the relevant Certificates are to be listed and/or admitted to trading and, if so, on which stock exchanges or markets.

Clearance and Settlement..... Certificateholders must hold their interest in the relevant Global Certificate in book-entry form through DTC, Euroclear and/or Clearstream, Luxembourg. Transfers within and between each of DTC and/or Euroclear and/or Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearing system.

Tax Considerations See "*Taxation*" for a description of certain tax considerations applicable to the Certificates.

Governing Law..... The Certificates and any non-contractual obligations arising out of or in connection with them will be governed by, and construed in accordance with, English law.

Each Transaction Document (other than the Master Purchase Agreement, each Supplemental Purchase Agreement, the Master Lease Agreement and each Supplemental Lease Agreement) and any non-contractual obligations arising out

of or in connection with them will be governed by, and construed in accordance with, English law.

The Master Purchase Agreement, each Supplemental Purchase Agreement, the Master Lease Agreement and each Supplemental Lease Agreement will be governed by the laws of Pakistan.

Waiver of Immunity

To the extent that the Government or any of its revenues, assets or properties are entitled, in any jurisdiction in which the courts of England and/or the courts of Pakistan (as applicable) (each a **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 set-off, 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 has agreed in the Transaction Documents to which it is a party not to claim and has irrevocably waived 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 Delegate to enforce a related judgment.

The waiver of immunities referred to above constitutes only a limited and specific waiver for purposes of the Transaction Documents to which it is a party and under no circumstances shall it be interpreted as a general waiver by the Government or a waiver with respect to proceedings unrelated to the Transaction Documents to which it is a party. 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).

Transaction Documents.....

The Transaction Documents in respect of a Series shall comprise the Master Trust Deed, each relevant Supplemental Trust Deed, the Agency Agreement, the Master Purchase

Agreement, each relevant Supplemental Purchase Agreement, the Master Lease Agreement, the relevant Supplemental Lease Agreement, the Service Agency Agreement, the Purchase Undertaking and the Sale and Substitution Undertaking.

Selling Restrictions..... There are restrictions on the offer, sale and transfer of the Certificates, including in the United States, the EEA, the United Kingdom, Pakistan, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the Kingdom of Saudi Arabia, Japan, Hong Kong, Singapore and Malaysia. See "*Subscription and Sale and Transfer and Selling Restrictions*".

U.S. Selling Restrictions Regulation S, Category 2 and Rule 144A.

RISK FACTORS

The purchase of Certificates involves risks and is suitable only for, and should be made only by, investors that are fully familiar with Pakistan in general and that have such other knowledge and experience in financial and business matters as may enable them to evaluate the risks and the merits of an investment in the Certificates. Prior to making an investment decision, prospective investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information set forth herein and, in particular, the risk factors set forth below. Prospective purchasers of Certificates should make such inquiries as they think appropriate regarding the Certificates and Pakistan without relying on the Trustee, the Government, the Arrangers, the Dealers, the Delegate or the Agents.

Each of the Trustee and the Government believes that the following factors may affect both the Trustee's ability to pay amounts owing under Certificates issued under the Programme and the Government's ability to satisfy its obligations under the relevant Transaction Documents (as defined in the Conditions). All of these factors are contingencies, which may or may not occur. Should any of these factors occur, it would have the potential to materially adversely affect the Government's ability to perform its obligations in respect of the relevant Transaction Documents.

Factors which each of the Trustee and the Government believes may be material for the purpose of assessing the market risks associated with Certificates issued under the Programme are also described below.

Each of the Trustee and the Government believes that the non-exhaustive list of factors described below represent the material risks inherent in investing in Certificates, but the inability of the Trustee to pay Periodic Distribution Amounts, Dissolution Distribution Amounts or other amounts on or in connection with any Certificates may occur for other reasons, which may not be considered significant risks by the Trustee and/or the Government based on information currently available to them or which they may not currently be able to anticipate. Neither the Trustee nor the Government represents that the statements below regarding the risks of holding any Certificates are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.

Words and expressions defined elsewhere in this Offering Circular shall have the same meanings in this section.

Risks relating to the Trustee

The Trustee was incorporated under the laws of Pakistan on 5 November 2021 and has no prior operating history. The Trustee will not engage in any business activity other than the issuance of Certificates under the Programme, the acquisition of the Trust Assets as described herein, acting in the capacity as Trustee and other activities incidental or related to the foregoing as required under the Transaction Documents. The Trustee's only assets, which will be held on trust for Certificateholders, will be the Trust Assets in respect of each Series of Certificates issued, including its right to receive payments from the Government (acting in the relevant capacities) under the Transaction Documents relating to each Series. Therefore, the Trustee is subject to all of 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*".

Accordingly, the ability of the Trustee to pay amounts due under the Certificates will primarily be dependent upon receipt by the Trustee from the Government (acting in the relevant capacities) of amounts to be paid under the Transaction Documents relating to each Series. In the event of any

shortfall in such amounts, the ability of the Trustee to meet its payment obligations under the Certificates may be adversely affected.

Risk factors relating to the Government

The COVID-19 pandemic depressed economic growth and put significant pressure on public finances. The outbreak of COVID-19 in the beginning of 2020 and its spread all over the world that escalated to the level of a global pandemic resulted in the implementation of stringent travel and transport restrictions, quarantines, lockdowns and extended shutdowns of certain businesses globally, including in Pakistan, in an attempt to contain the continued spread of the virus.

The first case of COVID-19 in Pakistan was reported in February 2020. The countrywide lockdown was imposed by the Government in the second half of March 2020 and remained in place until May 2020. The first wave of COVID-19 reached its peak in June 2020, after which the number of reported cases began to decrease. The second wave of COVID-19 commenced in late October 2020 followed by the third wave that commenced in March 2021 and the fourth wave that commenced in July 2021. The Government continuously monitored the situation in the country and implemented partial lockdowns wherever it was necessary. By 12 January 2022, the number of confirmed cases of COVID-19 in Pakistan reached 1,309,248 (with 28,987 reported deaths from COVID-19). The number of COVID-19 cases and deaths might be significantly underreported. In June 2020, Atta ur Rahman, the chairman of Prime Minister Imran Khan's task force on science and technology, said in an interview to Bloomberg that the actual numbers could be two to three times higher than what the Government was reporting at the time. A large number of cases were not reported because of low testing and deaths due to reasons other than respiratory failure were not being counted in deaths from COVID-19.

The Government introduced a number of measures aimed at mitigating the potential economic impact of the crisis. For further details on the Government's response, see "*Overview of Pakistan's Economy – Emergency Actions to Mitigate the Impact of the COVID-19 Pandemic*". But, despite such measures, the crisis adversely affected all sectors of Pakistan's economy in the fiscal year 2019-20. In the middle of the first wave of the COVID-19 outbreak in Pakistan, the Sub-committee of the National Coordination Committee for COVID-19 prepared an impact assessment of COVID-19 on the real sector of the economy, which, according to this assessment, was expected to contract by 0.4 per cent. in fiscal year 2019-20 as compared to an earlier projection of 3.3 per cent. growth. In April 2020, exports and imports decreased (year-on-year) by almost 54 per cent. and 32 per cent, respectively. While the decline in exports largely reflected lower external demand as well as low production activity domestically, the decline in imports most likely reflected low retail and wholesale trade. Similarly, sharp declines in tax collections and sales of automobiles, cement and petroleum products also indicated an across-the-board economic slowdown. In terms of the sectoral breakdown of GDP, the industrial and services sectors were particularly hard hit. Moreover, in the first wave of COVID-19 (March-July 2020), approximately 37 per cent. of the working population of Pakistan, or 20.6 million people, either lost their jobs or could not work due to the lockdown and another 12 per cent. of the working population, or 6.7 million people, experienced a decrease in their incomes.

The COVID-19 pandemic poses a new risk to the fiscal position of Pakistan and has already led to significant volatility in global financial markets, reduced global liquidity and trade, lower activity in tourism and hospitality. For Pakistan, the COVID-19 pandemic resulted in lower activity in its export-related industries such as textiles, chemicals and pharmaceuticals in the fiscal year 2019-2020, which are key sectors of Pakistan's economy. Given the uncertainty of the lasting effect of the COVID-19 pandemic crisis and the Government's measures to mitigate its effects, the financial impact on Pakistan's economy and various macroeconomic indicators, including inflation, cannot be determined, but the Government expects the impact to be material and adverse.

Pakistan's economy is vulnerable to fluctuations in the global economy. Being a small open economy, global economic conditions play an important role in the state of Pakistan's economy. In particular,

Pakistan relies on foreign currency revenues derived from the export of textiles, food products, chemical and pharmaceutical products and other goods and on workers' remittances to finance imports (including crude oil, oil products and natural gas) and service its external financing obligations. Accordingly, any material decrease in global demand or prices for Pakistan's exports, or any material increase in the cost of essential imports such as crude oil, oil products or natural gas, may have a significant adverse effect on Pakistan's balance of payments. In addition, if economic conditions in key advanced economies (particularly the U.S. and the United Kingdom) and/or in the Gulf Cooperation Council countries (particularly Saudi Arabia and the UAE) deteriorate significantly, this may reduce workers' remittances, which, in turn, may have an adverse effect on Pakistan's current account balance.

In addition, the state of the global economy has an important indirect effect on Pakistan's budget deficit and inflation levels, as Pakistan's economy is dependent on global commodity prices. Changes in the price of Pakistan's critical imports, including crude oil, oil products and natural gas, have led to significant fluctuations in Pakistan's budget deficit and inflation levels in the past. If global prices for energy and industrial products increase significantly in the near- or medium-term, this may lead to higher budget deficits and domestic inflation. Furthermore, a significant depreciation of the Rupee against major currencies could lead to an increase in Pakistan's gross public debt-to-GDP ratio because a substantial portion of its gross public debt is denominated in foreign currencies. Such significant depreciation could also lead to higher inflation levels and potentially trigger social unrest.

Any deterioration of the current economic situation in Pakistan, or any adverse change in the global economic environment or in the appetite of international investors for emerging market risk, could further reduce the availability of inbound investment and external financing in Pakistan and materially adversely affect future GDP growth rates. Unfavourable changes in the external or internal environment could further widen Pakistan's external funding gap. Significant current account deficit (see "*The current account deficit may negatively affect Pakistan's ability to meet its external obligations*") or significant net capital outflows could cause Pakistan's stock of international reserves to fall.

Globally, a fraying consensus about the benefits of globalisation could lead to protectionism and economic isolationism, leading to reduced global and regional policy collaboration with negative consequences for trade, capital and labour flows, sentiment and growth.

Any such developments may have a material adverse effect on Pakistan's economy and thus on the ability of Pakistan to perform its payment obligations under the Certificates.

The IMF programme approved in July 2019 remains critical for Pakistan's ability to ensure sufficient funding for its external financing needs and the development of Pakistan's economy. Given Pakistan's considerable external financing needs, unaddressed structural challenges and financing needs for the implementation of its comprehensive economic recovery programme (in June 2019, the Government estimated that the financing needs related to the implementation of such programme for the next 39 months are expected to amount to U.S.\$38.6 billion), support from the IMF through its 39-months extended arrangement under the Extended Fund Facility (the **IMF EFF**), which was approved by the Executive Board of the IMF on 3 July 2019, is likely to remain critical in the near- to medium-term.

On 19 December 2019, the IMF Board completed the first review of Pakistan's economic performance under the IMF EFF. The completion of the review process allowed the Pakistani authorities to draw SDR 328 million (approximately U.S.\$452.4 million). The outbreak of the COVID-19 pandemic temporarily suspended further funding under the IMF EFF, although Pakistan requested and received financial assistance from the IMF under the Rapid Financing Instrument (**RFI**) in the amount of SDR 1,015.5 million (approximately U.S.\$1,386 million) to help address its urgent fiscal and balance of payments needs. With respect to the IMF EFF, the impact of the COVID-19 pandemic has required a careful recalibration of the macroeconomic policy mix, the reforms calendar and the IMF EFF review schedule. In February 2021, an IMF team concluded virtual discussions with the Pakistani authorities

and reached a staff-level agreement on the second to fifth reviews of the Government's reform programme supported by the U.S.\$6 billion IMF EFF. On 24 March 2021, the IMF Board completed the combined second through fifth reviews of the Extended Arrangement under the IMF EFF. The approval by the IMF Board allowed for an immediate release of around U.S.\$500 million. On 21 November 2021, the IMF issued a statement confirming that the Pakistani authorities and IMF staff have reached a staff-level agreement on policies and reforms needed to complete the sixth review under the IMF EFF. The agreement is subject to approval by the IMF Board, following the implementation of prior actions, notably on fiscal and institutional reforms. Completion of the review would make available SDR 750 million (about U.S.\$1,059 million), bringing total disbursements under the IMF EFF to about U.S.\$3,027 million.

Pakistan's ability to ensure sufficient funding for its external financing needs and the development of its economy are, to a large extent, dependent on disbursements under the IMF EFF, which may be withheld upon any failure of Pakistan to comply with the quantitative performance criteria and indicative targets set by the IMF EFF and/or any failure to meet the requirements set in the programme's structural benchmarks.

In addition to direct financing under the IMF EFF, this programme also helps to obtain financing from other sources, such as the World Bank and the Asian Development Bank, and could improve access to global capital markets. Therefore, Pakistan's ability to raise future financing from international financial institutions and its international partners is, to a large extent, dependent on its continued compliance with the targets and requirements set in the IMF EFF, which remain subject to the discretion of the IMF.

Failure to successfully implement the Government's current comprehensive economic recovery programme aligned with the IMF EFF programme may result in an inability to meet Pakistan's external financing needs and have an adverse effect on macroeconomic stability. Pakistan is highly reliant on external sources for meeting its external financing needs and financing the budget deficit. By the time of the adoption of the IMF EFF programme, the Government had already secured financing commitments from several bilateral and multilateral partners such as China, Saudi Arabia, the UAE, the World Bank, the Asian Development Bank and the Islamic Development Bank. Some of these financial commitments, however, are now no longer available. For example, the U.S.\$3.2 billion credit facility provided by Saudi Arabia to Pakistan to cover oil imports from Saudi Arabia has since expired without being fully drawn and deposits made by Saudi Arabia in Pakistan in the total amount of U.S.\$2.0 billion have matured and have not been rolled over. With the adoption of the IMF EFF programme in July 2019, broader support from multilateral and bilateral creditors was expected to reach approximately U.S.\$38 billion, which is crucial for Pakistan to meet its large financing needs in the coming years.

Further external borrowings under the IMF EFF programme and from multilateral organisations and other external sources may depend on the Government's success in implementing its comprehensive economic recovery programme as modified by the Government following the outbreak of the COVID-19 pandemic, which, among other things, includes:

- broadening the tax base through documentation of the economy, removal of tax exemptions and concessions and strengthening tax administration;
- maintaining a flexible, market-determined exchange rate system;
- improving the business climate by creating an enabling environment for private sector investment and job creation and in the process reducing the scope of Pakistan's large informal economy. Specific measures include simplifying customs processes and business registration and reviewing existing regulations to further facilitate private sector investment and encourage private sector participation in the economy;

- improving cost recovery in the energy sector by rationalising subsidies, allowing regulators to set electricity and gas tariffs in line with generation costs and gas purchase prices and institutionalising regular and timely adjustments to improve energy sector efficiency;
- strengthening SBP's autonomy and governance;
- ending deficit monetisation;
- improving the governance and efficiency of state-owned enterprises (SOEs) and facilitating their privatisation; and
- strengthening the effectiveness of the anti-money laundering and countering financing of terrorism (AML/CFT) regime, including fully implementing the action plan agreed with the Financial Action Task Force (FATF) to facilitate an early exit from the FATF "Grey List".

Factors which may impede the implementation of these reforms include:

- adverse impact of the COVID-19 pandemic, particularly through depressed economic growth and pressure on the public finances;
- deterioration of security situation in the country;
- potential social resistance to austerity measures;
- recovery in economic activity taking longer or proving more difficult than initially expected;
- real exchange rate shocks;
- a larger than expected fiscal burden emanating from the energy sector;
- political difficulties or delays in implementing structural and other reforms; and
- external factors, including any escalation of conflict around Kashmir.

If Pakistan is unable to successfully implement the comprehensive economic recovery programme and meet the criteria set out in the IMF EFF and various other support programmes provided by multilateral organisations and official creditors, these sources may withhold or suspend further funding. See "*The IMF programme approved in July 2019 remains critical for Pakistan's ability to ensure sufficient funding for its external financing needs and the development of Pakistan's economy*". This withdrawal or suspension of funding, combined with any inability of Pakistan to access the international capital markets or syndicated loan markets, would put severe pressure on Pakistan's foreign exchange reserves and budget and could have a material adverse effect on Pakistan's ability to perform its payment obligations under the Certificates.

Moreover, if the current comprehensive economic recovery programme is not successfully implemented, Pakistan's significant deficit on the fiscal account may persist or even increase and the current account deficit may increase as well. This may pose major risks to macroeconomic stability, and Pakistan's current economic and structural problems may persist or even worsen, all having an adverse effect on Pakistan's economy, which was already experiencing a period of muted economic growth prior to the outbreak of the COVID-19 pandemic and negative economic growth of 0.4 per cent. in the fiscal year 2019-20.

Low level of foreign exchange reserves may negatively affect Pakistan's ability to maintain liquidity and meet its external obligations. The SBP's net foreign exchange reserves were adversely affected by

significant current account deficits in recent years and declined to U.S.\$7.3 billion as at 30 June 2019 (equating to 1.6 months' worth of imports of goods and services) from U.S.\$9.8 billion as at 30 June 2018 and U.S.\$16.1 billion as at 30 June 2017. Total liquid foreign exchange reserves also decreased during this period to U.S.\$14.5 billion as at 30 June 2019 from U.S.\$16.4 billion as at 30 June 2018 and U.S.\$21.4 billion as at 30 June 2017. In addition, the SBP's forward/swap short position reached U.S.\$8.0 billion as at 30 June 2019 (up from U.S.\$7.0 billion as at 30 June 2018).

In May 2019, the SBP implemented a flexible market-determined exchange rate system. The SBP now only intervenes in the foreign exchange market to prevent disorderly market conditions, while at the same time not suppressing any underlying trend and in a manner consistent with rebuilding reserves. The implementation of a flexible market-determined exchange rate system along with other policy measures helped to bring marked improvement in the current account, which registered a 10-year low of U.S.\$1.9 billion during the fiscal year 2020-21. This has enabled the SBP to build its foreign exchange reserves.

The SBP's net foreign exchange reserves increased to U.S.\$12.1 billion as at 30 June 2020 and to U.S.\$17.3 billion as at 30 June 2021, while total liquid foreign exchange reserves increased to U.S.\$18.9 billion as at 30 June 2020 and to U.S.\$24.4 billion as at 30 June 2021. The SBP's forward/swap short position decreased from U.S.\$8.0 billion as at 30 June 2019 to U.S.\$5.8 billion as at 30 June 2020 and further decreased to U.S.\$4.9 billion as at 30 June 2021. Nevertheless, foreign exchange reserves remain at a relatively low level against large external debt repayments. Moreover, any further pressure on the current account and inability to maintain external inflows may adversely affect the pace of accumulation of foreign exchange reserves.

The current account deficit may negatively affect Pakistan's ability to meet its external obligations.

In 2017-18, the current account deficit widened to 6.1 per cent. of GDP, reflecting the fiscal stimulus and an accommodative monetary policy. While Pakistan's exports of goods increased and reached U.S.\$24.8 billion in 2017-18 showing growth of 12.6 per cent. over the previous financial year, imports of goods increased by 16.0 per cent. as compared to 2016-17 and reached the highest ever level of U.S.\$55.7 billion. As a result, the trade deficit widened to U.S.\$30.9 billion, which was the highest in the last decade. Historically, workers' remittances have been providing support to sustain current account deficit as a buffer against trade deficit, but in 2017-18 workers' remittances grew by only 2.9 per cent. as compared to 2016-17, while the trade deficit recorded an 18.9 per cent. increase in the same year.

The Government has taken various corrective measures including moving to a market-determined flexible exchange rate system since May 2019, monetary tightening, fiscal consolidation and imposition of regulatory duties to contain the current account deficit. To support its home-grown stabilisation measures, Pakistan also entered into the IMF EFF programme on 3 July 2019. Under this programme, the IMF is expected to extend approximately U.S.\$6.0 billion over a period of 39 months from July 2019. As a result of stabilisation measures, Pakistan's current account deficit decreased to 4.8 per cent. of GDP in 2018-19 and then further decreased to 1.7 per cent. of GDP in 2019-20. Lower imports of goods and higher remittances contributed to the narrower deficit. Imports of goods decreased by 6.8 per cent. in 2018-19 as compared to 2017-18 to U.S.\$51.9 billion and then further decreased by 15.9 per cent. in 2019-20 to U.S.\$43.6 billion. This was largely due to the impact of policy measures ranging from exchange rate depreciation and policy rate hikes (prior to the outbreak of the COVID-19 pandemic) to higher import duties on non-essential items, a benign import prices environment and COVID-19-related demand compression. Workers' remittances increased by 9.2 per cent. to U.S.\$21.7 billion in 2018-19 and then further increased by 6.4 per cent. to U.S.\$23.1 billion in 2019-20. However, the largely positive dynamics in the current account has not been supported by higher exports, the value of which decreased by 2.1 per cent. in 2018-19 as compared to 2017-18 and then further decreased by 7.1 per cent. in 2019-20.

The current account deficit showed marked improvement in 2020-21 and decreased to a 10-year low of U.S.\$1.9 billion (0.6 per cent. of GDP). However, the pick-up in the domestic economic activity and elevated global commodity prices may put significant pressure on the current account balance. For instance, trade deficit in goods widened significantly in the fiscal year 2020-21 as compared to the fiscal year 2019-20. This was in large part due to significantly higher cost of imports of capital goods and industrial raw materials, as the economy started to recover from the adverse impact of the COVID-19 pandemic and international prices of commodities increased. In addition, import of agricultural commodities like sugar, wheat and cotton due to shortages in production and imports of COVID vaccines were other major contributors to the widening of the trade deficit from U.S.\$21.1 billion in 2019-20 to U.S.\$28.2 billion in 2020-21. In July-November 2021-22, trade deficit increased to U.S.\$17.6 billion from U.S.\$8.6 billion in July-November 2020-21. The growing trade deficit may increase external financing needs for Pakistan and may further increase external indebtedness, putting additional pressure on Pakistan's ability to service its external debts, including its payment obligations under the Certificates.

Pakistan's fiscal deficit and debt levels could negatively impact Pakistan's credit rating and could have a material adverse effect on the economy, the Government's finances and its ability to service its debt, including the Certificates. Pakistan's fiscal deficits have led to increased levels of Government borrowing, which have, in turn, increased Pakistan's gross public debt. Although Pakistan's overall fiscal deficit decreased from 9.0 per cent. of GDP in 2018-19 to 8.1 per cent. of GDP in 2019-20 and to 7.1 per cent. in 2020-21, the overall fiscal deficit remains high. If Pakistan is unable to continue to reduce its overall fiscal deficit and the resulting effect on the public debt, it could raise Pakistan's cost of funding its debt, negatively affect the economy, strain the general resources of the Government and the Government's finances, increase its vulnerability to external events, hinder the Government's structural reform efforts and materially impair Pakistan's capacity to service its debt (including the Certificates).

Over the past five fiscal years, gross public debt, as a percentage of GDP, has remained relatively high. As at 30 June 2021, total gross public debt represented 83.5 per cent. of GDP, as compared to 87.6 per cent. of GDP as at 30 June 2020, 85.9 per cent. of GDP as at 30 June 2019, 72.1 per cent. of GDP as at 30 June 2018 and 67.1 per cent. of GDP as at 30 June 2017. Total external debt and liabilities have also increased since 2016-2017, from 27.4 per cent. of GDP as at 30 June 2017 to 33.4 per cent. of GDP as at 30 June 2018, 45.5 per cent. of GDP as at 30 June 2019 and 45.7 per cent. of GDP as at 30 June 2020 before decreasing to 40.3 per cent. of GDP as at 30 June 2021. Similarly, government external debt (including debt from the IMF) has also increased since 2016-2017, from 20.5 per cent. of GDP as at 30 June 2017 to 24.7 per cent. of GDP as at 30 June 2018, 31.4 per cent. of GDP as at 30 June 2019 and 31.6 per cent. of GDP as at 30 June 2020 before decreasing to 28.5 per cent. of GDP as at 30 June 2021. As at 30 June 2021, 30 per cent. of Pakistan's government external debt (including debt from the IMF) was derived from bilateral loans. The availability of bilateral loans may be tied to, or influenced by, geopolitical interests and developments.

Total expenditure on Pakistan's external public debt servicing amounted to U.S.\$8,388 million in 2020-21, of which U.S.\$6,935 million was accounted for by principal repayments and U.S.\$1,453 million by interest payments. Interest payments with respect to domestic and external public debt accounted for 43.3 per cent. of the federal government's current expenditure in the fiscal year 2020-21 and are expected to account for 40.7 per cent. in the budget for the 2021-22 fiscal year. This high share of interest in the federal government's current expenditure, together with Pakistan's low tax revenues (Pakistan's tax-to-GDP ratio decreased to 11.6 per cent. in 2018-19 and then further decreased to 11.4 per cent. in 2019-20 and 11.1 per cent. in 2020-21) hinder its affordability of further borrowings and may impact debt sustainability.

High levels of indebtedness, which may increase as a result of continued borrowing, could negatively impact Pakistan's credit rating and could have a material adverse effect on the economy, the Government's finances and its ability to service its debt obligations, including the Certificates.

Pakistani banks are heavily exposed to the sovereign credit risk. Pakistani banks are heavily exposed to the Pakistan sovereign through large holdings of local currency government securities and lending. This links their creditworthiness with that of the Government. Pakistani banks held government securities worth Rupees 13.0 trillion, which was equivalent to 8.8x their Tier 1 capital as at 30 June 2021. Including lending to the Government and to public-sector entities, the exposure rose to around 10.2x their Tier 1 capital as at 30 June 2021. This exposure makes the Pakistani banking system vulnerable in case of a crisis affecting the sovereign.

Political instability and low level of Government effectiveness 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 July 2018, succeeding a previously elected democratic Government. Pakistan has, periodically, had military governments for an aggregate of 33 of its 73 years of independence and many other elected governments were unable to complete their terms. Since 2008, however, the situation started to change, with two successive governments that had completed their full five-year terms for the first time in Pakistan's history.

However, both the Government formed by Pakistan People's Party (**PPP**) that was in power between 2008 and 2013 and the Government formed by Pakistan Muslim League-Nawaz (**PML-N**) that was in power between 2013 and 2018 had a history of corruption scandals and were accused of mis-governance. For example, the leak of documents (**Panama Papers**) 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 2016, Pakistan's Supreme Court began hearing a case against then Prime Minister Nawaz Sharif on charges of corruption after information about the Sharif family's undisclosed assets was revealed in the leaked Panama Papers. In July 2017, the Supreme Court disqualified Nawaz Sharif from being Prime Minister or a member of the National Assembly on the basis of the constitutional clause that by failing to report a previous employment, he had violated the requirement that members of Parliament be honest and trustworthy. Nawaz Sharif was subsequently indicted and handed a 10-year sentence on charges of corruption by the Accountability Court just weeks prior to the July 2018 election.

The Pakistan Tehreek-e-Insaf (**PTI**), which secured the largest number of seats in the July 2018 election to the National Assembly, does not have a majority of seats in the National Assembly. In contrast to the previous Government that was in power until 31 May 2018 and was formed by PML-N alone, PTI leads a coalition Government that includes several small parties such as the Muttahida Qaumi Movement, the Pakistan Muslim League (Quaid-i-Azam) and the Grand Democratic Alliance. The PTI-led coalition also lacks a simple majority in the Senate, the upper house of the Parliament, which presents a risk to Government effectiveness.

In September 2020, Pakistan's opposition parties announced the formation of the Pakistan Democratic Movement (**PDM**) alliance. The PDM was led by the two largest opposition parties in the National Assembly, the PML-N and the PPP. These two opposition parties shared a common objective, the end of the PTI-led Government or, at the very least, the resignation of the Prime Minister, Imran Khan. To this end, the PDM at one point threatened that its legislators would tender resignations to their respective party chiefs in an effort to topple the Government. They also organised and held large rallies in all four provinces. In April 2021, the PDM suffered a major split when the PPP and Awami National Party left it. The remaining five opposition parties formed a new alliance.

PTI is also in opposition in the key province of Sindh. Contests over power-sharing between the federal and provincial governments could prove to be a significant source of tension in the medium term, undermining the effectiveness of the federal government.

Problems between the PTI and any of its coalition partners, inability to secure support for the Government's policies in the Senate, aggressive anti-Government policies of the opposition parties, contests over power-sharing between the federal government and provincial governments or any other forms of political instability could negatively affect the Government's ability to continue its efforts to mitigate the adverse impact of the COVID-19 pandemic on the economy and public finances and to pursue the updated comprehensive economic recovery programme, decrease international investor confidence and thereby 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. In particular, the ruling coalition's slim majority in the lower house causes a persistent risk to political stability. This can be triggered by political manoeuvring from the opposition or by the defection of junior partners from the ruling coalition caused by large-scale protests against the Government because of high inflation or for other reasons. A new Government could also cancel the IMF programme owing to its onerous conditions, causing, among other things, large volatility in the Pakistani rupee. See also "*Failure to adequately address actual and perceived risks of corruption, money laundering and terrorist financing may negatively affect Pakistan's economy and ability to attract foreign direct investment.*"

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 approximately 63,900 lives between 1 January 2000 and 23 June 2019, has caused the erosion of the investment climate and has reduced economic activity in many parts of Pakistan.

In June 2014, the Pakistan armed forces started an operation by the name of *Zarb-e-Azab* (meaning Sharp and Cutting Strike) against the terrorists. Pakistan armed forces successfully destroyed the command centres of the terrorists in this operation. In response to terrorist attacks in February 2017, the Pakistan armed forces launched an operation by the name of *Radd-ul-Fasaad* (meaning Elimination of Discord) aimed at eliminating the threat of terrorism and consolidating the gains of previous operations and ensuring security of the borders.

Despite the Pakistan military's anti-terrorism campaigns, militant groups continue to remain active in the country, although there has been a significant decrease in the number of terrorist attacks and the number of deaths caused by such attacks in Pakistan in recent years. For further information see "*The Islamic Republic of Pakistan – Fight Against Extremism*". The volatile security environment is expected to continue to represent a significant threat to business operations in the near- to medium-term. The security risk is particularly high in the province of Balochistan, where separatist elements persist. The security risk is also expected to remain high in Khyber Pakhtunkhwa, which now includes the Federally Administered Tribal Areas, where *Tehrik-i-Taliban (TTP)* and al-Qaida-influenced Islamist groups have the strongest presence. However, terrorist attacks and attempted bombings have also occurred in more central areas of Pakistan, such as the attack on a Sufi shrine in Lahore in May 2019 or the attack on the Pakistan Stock Exchange building in Karachi in June 2020. Lightly defended civilian locations, including business premises, may continue to be targeted by terrorist groups. Tensions between Shia and Sunni groups often result in attacks on members of rival sects and risk stoking sectarian tensions.

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

The takeover of Afghanistan by the Taliban presents various risks for Pakistan. The Taliban took over Kabul, the capital of Afghanistan, on 15 August 2021. It announced the formation of an interim government on 7 September 2021. Despite the relatively peaceful nature of this takeover, the Government expects higher than usual levels of instability along the Afghan-Pakistani border to continue in the near future. There has already been an increase in the number of terrorist incidents in selected areas on the border with Afghanistan in 2021 and, because of such increase in incidents in the border areas, the overall number of terrorist incidents reported in Pakistan in 2021 as compared to the number of terrorist incidents reported in the previous year may increase for the first time since 2014. Moreover, the Taliban regime is unlikely to be able to exercise full control over the entirety of Afghanistan's territory and this is likely to create a security vacuum that may allow terrorist networks or organised crime groups to operate from the country. The victory of the Taliban in Afghanistan may also embolden and encourage Islamic radicals in Pakistan, as a result of which TTP and other religious extremists may intensify their attacks on targets in the country.

Furthermore, the present-day Afghanistan is faced with a dismal economic situation. Afghan assets in the West worth approximately nine billion dollars are currently frozen and, therefore, there is a lack of funds to handle the imminent humanitarian crisis. If the Taliban fails to handle the internal situation appropriately, this may result in a much larger wave of refugees than has been the case until now. At present, there are already approximately 1.42 million registered Afghan refugees, as well as approximately 0.84 million Afghan citizenship card-holders and an estimated 0.5 to 0.7 million undocumented Afghans in Pakistan. The Pakistani authorities are waiting to see whether more Afghan refugees enter Pakistan. According to a policy document presented to the federal cabinet in July 2021 by the Ministry of States and Frontier Regions, between 500,000 and 700,000 new Afghan refugees might come to Pakistan. The estimated cost for housing 700,000 Afghan refugees in secure camps amounts to U.S.\$2.2 billion over a period of three years.

In addition, there can be no assurance that the Taliban's takeover of Afghanistan does not adversely affect U.S.-Pakistani relations. Following the withdrawal of U.S. and NATO troops from Afghanistan, there has been a significant amount of rhetoric in the West and, in particular, in the United States, with respect to the alleged Pakistani assistance to the Taliban, which was denied by the leadership of Pakistan. In the end of September 2021, 22 American republican senators tabled "Afghanistan Counterterrorism, Oversight and Accountability Act" in the U.S. Senate, demanding a deeper investigation into the Taliban's victory in Afghanistan and sanctions on the Taliban. This bill also asks for further assessment of "support by state and non-state actors, including the Government of Pakistan, for the Taliban between 2001 and 2020".

Sustained escalation in Kashmir tensions can have an adverse effect on Pakistan's economy hampering fiscal consolidation. Kashmir remains an on-going source of tension between India and Pakistan. For instance, there was an escalation of the conflict on 26 and 27 February 2019 involving the Indian Air Force and the Pakistani Air Force on both sides of the border in Kashmir. While this conflict de-escalated subsequently, this was the first instance when Indian jets bombed Pakistan's territory since the 1971 war between the two countries. There can be no assurance that further incidents, especially in the vicinity of the line of control in Kashmir, will not take place.

On 5 August 2019, the Indian government took steps to alter the internationally recognised status of Jammu and Kashmir and has also introduced laws to alter the demographic structure of the occupied territory and has amended land ownership laws.

Political and security risks in the region have significantly increased following these steps in Jammu and Kashmir, which India views as an internal matter. Pakistan has reacted critically to India's unilateral actions in Jammu and Kashmir. Moreover, Pakistan has highlighted this issue at all multilateral forums, including the United Nations, Human Rights Council, OIC, world parliaments and various other international and regional organisations. For further information see "*The Islamic Republic of Pakistan – International Relations – Relations with Select Countries – Relations with India*".

Any steps taken by India to alter the internationally recognised status of Jammu and Kashmir create a significant risk of an escalation in geopolitical and military conflict with Pakistan. As the Pakistani economy is already experiencing near-term challenges, a sustained military conflict with India would risk resulting in even weaker economic performance through a prolonged hit to consumer and business confidence, as well as foreign direct investment. A further and more protracted economic crisis can make it difficult for the Government to meet its fiscal consolidation targets.

Failure to adequately address actual and perceived risks of corruption, money laundering and terrorist financing 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 124 out of 180 countries in Transparency International's 2020 Corruption Perceptions Index. Pakistan was ranked 120 in 2019 and 117 in each of 2018 and 2017 in that index.

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 that 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 information relating to criminal activity to the relevant law enforcement agencies tasked with investigating and prosecuting 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 enacted to criminalise money laundering and providing for the forfeiture of property derived from the same. The Anti-Money Laundering Act 2010 was most recently significantly amended in September 2020 to address all the gaps identified in Pakistan's Mutual Evaluation Report, 2019. There have been a number of high-profile prosecutions and convictions for corruption, including high ranking political personalities, who were convicted or are facing legal charges for holding assets overseas through illegal means. See "*Political instability and low level of Government effectiveness may negatively affect economic conditions in Pakistan*" above and "*Overview of Pakistan's Economy – Principal Sectors of the Economy – Services Sector – Anti-Corruption and Anti-Money Laundering*".

Despite such initiatives to fight corruption, corruption remains a material challenge in Pakistan and further progress is required. Failure to address these issues in a timely manner, continued 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.

In addition, owing to shortcomings in effectively addressing terrorist financing risks, Pakistan was placed in the FATF "Grey List" in June 2018. As at June 2021, following a number of remedial actions, Pakistan has been rated "largely addressed" on 26 of 27 action items. Following its October 2021 plenary meeting, the FATF encouraged Pakistan to continue to make progress to address as soon as possible the one remaining counter financing of terrorism-related item by continuing to demonstrate that terrorist financing investigations and prosecutions target senior leaders and commanders of UN designated terrorist groups. In response to deficiencies identified in Pakistan's 2019 APG Mutual Evaluation Report, in June 2021, Pakistan provided further high-level commitment to address these strategic deficiencies pursuant to a new action plan that primarily focuses on combating money laundering. Since June 2021, Pakistan has taken swift steps towards improving its anti-money laundering/counter financing of terrorism regime, including by enacting legislative amendments to enhance its international cooperation framework; demonstrating designated non-financial business and professions monitoring for proliferation financing targeted financial sanctions and designated non-financial business and professions supervision commensurate with the risks; and applying sanctions for non-compliance with beneficial ownership requirements. The FATF asked Pakistan to continue to work to address its other strategically important anti-money laundering/counter financing of terrorism deficiencies, in particular by: (i) providing evidence that it actively seeks to enhance the impact of

sanctions beyond its jurisdiction by nominating additional individuals and entities for designation at the UN; and (ii) demonstrating an increase in money laundering investigations and prosecutions and that proceeds of crime continue to be restrained and confiscated in line with Pakistan's risk profile, including working with foreign counterparts to trace, freeze and confiscate assets. If Pakistan were to ever be placed in the FATF's High-Risk Jurisdictions subject to a Call for Action list, this may materially impact the economy and the value of the Rupee and, as a result, the Government's ability to meet its obligations.

The Government's plans for growth are dependent on its ability to continue to increase the capacity of the energy sector. The shortage of a reliable electricity supply has been an impediment to Pakistan's economic growth and development. To address this problem, massive projects were added to the supply side between the years 2013-21, adding a cumulative capacity of 17,206 MW. Although the added capacity has helped ease the bottlenecks in generation, the transmission and distribution-side congestion and inefficiencies have hampered the sustained delivery of energy services. In addition, the higher energy prices at present as well as in the near future are a by-product of such aggressive capacity additions during 2013-20.

The power sector remains saddled with significant shortcomings. These include sizeable losses and insufficient collections and weak governance and regulatory deficiencies. These gaps translate into distortions and losses and the accumulation of cash flow shortfalls, or circular debt. Approximately Rupees 538 billion and Rupees 130 million were accumulated in the fiscal year 2019-20 and the fiscal year 2020-21, respectively, increasing the total amount of circular debt to Rupees 2,150 billion as at 30 June 2020 and Rupees 2,280 billion as at 30 June 2021. This large and increasing amount of circular debt represents a significant fiscal risk for the Government. See "*Overview of Pakistan's Economy – Energy in Pakistan*".

The impact of climate change, including the occurrence of floods, droughts and severe heat waves, has negatively affected Pakistan in the past and may negatively affect it in the future. Climate change is a threat to Pakistan's economy and its future growth prospects. A global increase in the mean temperature is likely to lead to changed precipitation patterns, sea level rises and more frequent extreme weather events, such as prolonged droughts and flooding. Pakistan's economy is dependent on climate sensitive sectors, particularly agriculture. A change in climate may have adverse consequences for agriculture productivity.

Pakistan has historically been affected by floods and droughts, including severe flooding along the Indus River in 2010 and 2011 and extensive flooding in 2014 and 2015. Such developments can have a particularly negative impact on Pakistan's economy given its significant dependence on the agricultural sector and infrastructure constraints. The floods resulted from unusually heavy monsoon rains in various areas of Pakistan and 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 services delivery, commerce and communications. Floods in 2015 resulted in the deaths of around 238 people whilst nearly 10,700 homes were damaged in 411 villages, and some 1,572,191 people were displaced, according to the National Disaster Management Authority. The 2015 floods also significantly affected Pakistan's agricultural sector (particularly the cotton industry) that had been predicted to grow by 3.9 per cent. in 2015-16 but, principally as a result of floods and a pest attack, grew by only 0.27 per cent.

Any natural disasters or other effects associated with climate change, or other natural disasters such as earthquakes or landslides, could have a material adverse effect on Pakistan's economy and its future growth prospects. 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.

A dispute with Tethyan Copper Company Pty Limited (TCC) could have a material impact on Pakistan's fiscal condition. Since 2011, Pakistan has been involved in a dispute about a mining lease with TCC, which is described in detail in "*The Islamic Republic of Pakistan—Significant Litigation*".

Although the Government continues to dispute the merits of the proceedings, no assurance can be made that the Government will be successful, and any enforcement proceedings or other payment in respect of TCC claims may be significant as the ICSID Award (as defined in "*The Islamic Republic of Pakistan—Significant Litigation*") in favour of TCC amounts to approximately two per cent. of Pakistan's GDP in the 2020-21 fiscal year and could have a material impact on Pakistan's fiscal condition, putting additional pressure on Pakistan's ability to service its external debts, including its payment obligations under the Certificates.

Enforcement of legal rights. The Pakistani legal system is a common law system that requires modernisation and law reform, particularly in civil and commercial law. 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 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 EU), 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 for Pakistan is B3 (stable). Moody's revised its outlook to negative from stable in June 2018, but then revised it back from negative to stable in December 2019. The B3 rating was reaffirmed on 8 August 2020. Standard & Poor's current long-term sovereign credit rating on Pakistan is B- (stable) and this rating was reaffirmed on 30 August 2021. Fitch downgraded Pakistan's rating from B to B- on 14 December 2018. This B- (stable) long-term rating was reaffirmed on 27 May 2021. Any negative rating action, including downgrades of Pakistan and/or the Government's bonds and/or sukuk, negative changes in outlook with respect to Pakistan and/or the Government's bonds and/or sukuk or any withdrawal at any time of a credit rating assigned to Pakistan and/or the Government's bonds and/or sukuk by any rating agency would likely affect the Government's ability to raise foreign debt and/or affect its cost of borrowing such foreign debt, which could, in turn, negatively affect the Pakistani economy.

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

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

By the Revival of the Constitution Order 1985 a new Article 2A was incorporated in the Constitution whereby the principles and provisions set out in the Objectives Resolution (the **Resolution**) were made a substantive part of the Constitution. The Resolution was passed by Pakistan's first Constituent Assembly and sets out basic principles to guide the framing of a constitution. Certain references in the Resolution gave rise to an argument that the Injunctions of Islam provided a touchstone for testing the repugnancy of all laws and that by virtue of Article 2A of the Constitution, the Resolution now has a supra-constitutional position above the Constitution itself. Since 1985, the point has been discussed and considered by the superior courts of Pakistan on a number of occasions leading to a number of conflicting decisions. The position that Article 2A has no effect on other constitutional provisions can now be regarded as settled on the basis of a Supreme Court judgment. The Supreme Court has also held in another judgment that Article 2A is not available for declaring void sub-constitutional laws, on the basis of repugnancy to the Injunctions of Islam. Therefore, unless these Supreme Court judgments are reversed or unless legislative action is taken to similar effect, Article 2A of the Constitution does not provide any basis for rendering void an obligation for the payment of interest. In a judgment delivered on 16 December 2009 by a bench comprising all 17 judges of the Supreme Court, Article 2A was mentioned in passing along with various other substantive provisions of the Constitution on the touchstone of which the statute in question was held to be unconstitutional. Since there was no real discussion in that judgment about Article 2A, nor were the earlier judgements on the topic overruled, the status of Article 2A likely remains unchanged.

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

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

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

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

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

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

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

- presently, the law in Pakistan does not prohibit the payment of interest pursuant to a contract to borrow money;
- an obligation to pay interest may be held to be unenforceable by the ordinary civil courts if:
 - the Supreme Court reverses itself on its findings in respect of Article 2A of the Constitution (subsection (a) above); or
 - the protection to financial obligations incurred and contracts made *inter alia* involving a foreign lender is removed (subsection (b) above); or
 - the Federal Shariat Court *de novo* determines the issue afresh but holds to the same effect as previously decided and the Shariat Appellate Bench of the Supreme Court substantially upholds the judgment of the Federal Shariat Court (subsection (c) above);
- any decision of a civil court declaring interest unenforceable will only operate between the parties to it;
- any such decision will not form a binding precedent until upheld by the provincial High Court to which such civil court is subordinate or the decision is delivered by such High Court itself, in which case the High Court's decision will be binding only on all civil courts subordinate to it;
- a single judge of a High Court is not bound by the decision of another single judge of the same High Court but is bound by a division bench (a bench of two judges) decision of that High Court. One division bench is not bound by the decision of another division bench but all judges of that High Court are bound by the full bench decisions (a bench of three or more judges) of that High Court. In the event that a single judge finds that he cannot agree with a previous decision of another single judge, then the matter must be referred to the Chief Justice of that High Court for the constitution of a larger bench

to settle the issue (subject to the outcome of any appeal to the Supreme Court). A similar procedure applies where one division bench is in disagreement with another division bench;

- the decision of one High Court will not bind any other High Courts but will have persuasive value for High Courts and subordinate courts in other provinces and the Islamabad Capital Territory;
- any such decision will operate as a precedent binding on all courts in Pakistan only if the Supreme Court of Pakistan upholds such a decision and to the extent that it decides a question of law or is based upon or enunciates a principle of law; and
- any decision of any court in Pakistan (including the Appellate Bench or the Federal Shariat Court) in relation to the unenforceability of an obligation to pay interest will have no effect whatsoever on any obligation to pay the original sum borrowed or advanced.

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

Risks relating to the Certificates

Limitations relating to the indemnity provisions under the Purchase Undertaking and the Master Trust Deed

The Government has undertaken in the Purchase Undertaking and the Master Trust Deed that:

- (a) if, at the time of delivery of the exercise notice in accordance with the provisions of the Purchase Undertaking, the Government (acting in any capacity) is in actual or constructive possession, custody or control of all or any part of the relevant Lease Assets; and
- (b) if, following delivery of the exercise notice in accordance with the provisions of the Purchase Undertaking, the relevant Exercise Price is not paid in accordance with the provisions of the Purchase Undertaking for any reason whatsoever,

the Government shall (as an independent, severable and separately enforceable obligation) fully indemnify the Trustee for the purpose of redemption in full of the Certificates then outstanding and, accordingly, the amount payable under any such indemnity claim will equal the Exercise Price.

Subject to the satisfaction of the conditions in (a) and (b) as described above, if the Government fails to pay the Exercise Price in accordance with the Purchase Undertaking, the Delegate (on behalf of the Certificateholders) may, subject to the matters set out in Condition 13 and the terms of the Master Trust Deed, seek to enforce, *inter alia*, the provisions of the Purchase Undertaking and the Master Trust Deed against the Government by commencing legal proceedings.

However, investors should note that, in the event that the Government (acting in any capacity) does not have actual or constructive possession, custody or control of all or any part of the relevant Lease Assets at the time of delivery of the exercise notice in accordance with the provisions of the Purchase Undertaking, the condition in (a) as described above will not be satisfied and, therefore, no amounts

will be payable by the Government under the separate indemnity provisions. For the avoidance of doubt, no investigation has been or will be made by the Trustee, the Arrangers, the Dealers, the Delegate or the Agents as to whether the Government has or will continue to have actual or constructive possession, custody or control of any Lease Assets.

Accordingly, in such event, the Delegate (on behalf of the Certificateholders) may be required to establish that there has been a breach of contract by the Government and prove for damages. Such breach of contract may be due to (a) a breach by the Government of the requirement to purchase the Trustee's rights, title, interest, benefits and entitlements, in, to and under the relevant Lease Assets on the relevant Dissolution Date pursuant to the provisions of the Purchase Undertaking, and, (b) a breach by the Government of its undertaking to maintain actual or constructive possession, custody or control of all of the Lease Assets.

As a result, the Delegate (on behalf of the Certificateholders) may not be able to recover, or may face significant challenges in recovering, an amount equal to the Exercise Price and in turn, the amount payable to the Certificateholders upon redemption.

The Certificates are limited recourse obligations of the Trustee

The Certificates are not debt obligations of the Trustee, instead, each Certificate represents an undivided ownership interest in the Trust Assets relating to that Series. Recourse to the Trustee is limited to the Trust Assets of the relevant Series and the proceeds of the Trust Assets of the relevant Series are the sole source of payments on the Certificates of that Series. Upon the occurrence of a Dissolution Event, the sole rights of the Trustee and/or the Delegate (acting on behalf of the Certificateholders of the relevant Series of Certificates) will be against the Government to perform its obligations under the Transaction Documents to which it is a party.

Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets), the Delegate, any Agent or (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is a party) the Government in respect of any shortfall in the expected amounts due on the Certificates. Certificateholders will also not be able to petition for, institute or join any other person in, instituting proceedings for, the reorganisation, arrangement, liquidation, bankruptcy, winding-up or receivership or other proceedings under any bankruptcy or similar law against the Trustee, the Delegate, the Agents or any of their respective directors, officers, employees or agents as a consequence of any shortfall or otherwise. The Government is obliged to make certain payments under the Transaction Documents to which it is a party directly to the Trustee, and the Trustee and/or the Delegate will have direct recourse against the Government to recover such payments due to the Trustee under the Transaction Documents to which it is a party.

After enforcing or realising the rights in respect of the Trust Assets in respect of a Series of Certificates and distributing the net proceeds of such Trust Assets in accordance with Condition 6(b), the Master Trust Deed and the Agency Agreement, the obligations of the Trustee and/or the Delegate in respect of that Series of Certificates shall be satisfied, neither the Trustee nor the Delegate nor any Certificateholder may take any further steps against the Trustee or the Government to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. Furthermore, under no circumstances shall the Trustee, the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets other than as contemplated in the Transaction Documents. The sole right of the Trustee, the Delegate and the Certificateholders against the Government shall be to enforce the obligation of the Government to perform its obligations under the Transaction Documents.

The Conditions contain provisions, which permit their modification without the consent of all the Certificateholders

The Conditions contain provisions for calling meetings (including by way of conference call or by use of a videoconference platform) of Certificateholders to consider and vote upon matters affecting their interests generally and for the passing of resolutions in writing or through the use of electronic consents 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 any Certificateholders who did not attend and vote at the relevant meeting or sign the relevant written resolution or give their consent electronically, and including those Certificateholders who voted in a manner contrary to the majority.

In addition, the Conditions permit "cross-series modifications" to be made to more than one series of securities, provided that each affected series of securities issued by the Trustee or the Government also contains a cross-series modification provision. The Trustee and the Government expect that all Series of Certificates issued under the Programme will include such collective action clauses, thereby giving the Trustee and the Government the ability to request modifications or actions in respect of Reserved Matters across multiple Series of Certificates.

Any modification or actions relating to any Reserved Matter, including in respect of payments and other important terms, may be made (a) to a single Series of 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 Trustee 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 Trustee's securities 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 Trustee or the Government, as the case may be, may, at the option of the Trustee 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 Trustee 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 Trustee or the Government, as the case may be.

It is, therefore, possible 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 of the relevant Series would not necessarily have voted in favour 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. Further, any such amendment, modification or waiver in relation to the Certificates may adversely affect their trading price.

The Master Trust Deed may be modified without the consent of, or notice to, Certificateholders

The Master Trust Deed contains provisions permitting the Delegate from time to time, without the consent or sanction of the Certificateholders, to: (a) agree to make any modification to the Conditions, Trust Deed or any other Transaction Document if, in the opinion of the Delegate such modification is

(i) of a formal, minor or technical nature, or (ii) made to correct a manifest error, or (iii) not materially prejudicial to the interests of the outstanding Certificateholders; or (b) (i) agree to any waiver or authorisation of any breach or proposed breach of, any of the Conditions or any of the provisions of the Trust Deed or any other Transaction Document, or (ii) determine that any Dissolution Event or Potential Dissolution Event shall not be treated as such, provided that such consent, waiver, authorisation or determination is in the opinion of the Delegate not materially prejudicial to the interests of the outstanding Certificateholders. Unless the Delegate otherwise decides, any such modification, consent, waiver, authorisation or determination shall as soon as practicable thereafter be notified to the Certificateholders in accordance with Condition 19 and shall in any event be binding upon the Certificateholders.

The Certificates may be subject to early redemption

If so specified in the applicable Pricing Supplement, a Series may be redeemed early at the option of the Government pursuant to Condition 9(b). Any such early redemption feature of any Certificate is likely to limit its market value. During any period when the Government elects to require the Trustee to redeem the Certificates pursuant to Condition 9(b), the market value of those Certificates generally will not rise substantially above the Dissolution Distribution Amount payable. This also may be true prior to any other Dissolution Date.

In the case of Certificates with such an optional dissolution feature pursuant to Condition 9(b), the Government may elect to require the Trustee to redeem such Certificates when its cost of financing is lower than the Profit Rate on the Certificates. At those times, an investor generally would not be able to re-invest the redemption proceeds at an effective profit rate as high as the Profit Rate on the Certificates being redeemed and may only be able to do so at a significantly lower rate. Prospective investors should consider re-investment risk in light of other investments available at that time.

Investors must make their own determination as to Shari'a compliance

The Internal Sharia Supervisory Committee of Dubai Islamic Bank PJSC and the Standard Chartered Bank Global Shariah Supervisory Committee have each confirmed that the Transaction Documents are, in their view, in compliance with Shari'a principles as applicable to, and interpreted by, them. However, there can be no assurance that the Transaction Documents or any issue and trading of Certificates will be deemed to be Shari'a compliant by any other Shari'a board or Shari'a scholars. None of the Trustee, the Government, the Arrangers, the Dealers, the Delegate or the Agents makes any representation as to the Shari'a compliance of any Series and potential investors are reminded that, as with any Shari'a views, differences in opinion are possible and different Shari'a standards may be applied by different Shari'a boards. In addition, none of the Arrangers, the Dealers, the Delegate or the Agents will have any responsibility for monitoring or ensuring compliance with Shari'a principles of debt trading referred to in Condition 9(c) nor shall it be liable to any Certificateholder or any other person in respect thereof. Potential investors should not rely on the above pronouncements in deciding whether to make an investment in the Certificates and should obtain their own independent Shari'a advice as to whether the Transaction Documents and any issue of Certificates will meet their individual standards of compliance and should also make their own determination as to the future tradability of the Certificates on any secondary market. Questions as to the Shari'a permissibility of the Transaction Documents or the tradability of the Certificates may limit the liquidity and adversely affect the market value of the Certificates.

In addition, prospective investors are reminded that the enforcement of any obligations of any of the parties under the Transaction Documents would be, if in dispute, the subject of court proceedings. The Government has agreed under the Transaction Documents to which it is a party to submit to the exclusive jurisdiction of the courts of England and/or the courts of Pakistan (as applicable). In such circumstances, the court should apply the governing law of the relevant Transaction Document in determining the obligations of the parties.

Shari'a requirements in relation to interest awarded by a court

In accordance with applicable Shari'a principles, each of the Trustee and the Delegate will waive all and any entitlement it may have to interest awarded in its favour by any court in connection with any dispute under any of the Transaction Documents to which it is a party. Should there be any delay in the enforcement of an arbitral award or a judgment against the Government, interest may well accrue in respect of that delay and, as a result of the waiver referred to above, Certificateholders will not be entitled to receive any part of such interest. Certificateholders should note that the Trust Assets specifically exclude any rights which have been expressly waived by the Trustee in any of the Transaction Documents (which, to the extent applicable, would extend to any award of interest made in favour of the Trustee by a court in respect of a dispute).

There can be no assurance as to the impact of a change in the laws governing the Certificates or the Transaction Documents

The structure of each issue of Certificates under the Programme is based on English law and the laws of Pakistan and administrative practices in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to such law or administrative practices in any such jurisdiction after the date of this Offering Circular, nor can any assurance be given as to whether any such change could adversely affect the ability of the Government to make payments under the Transaction Documents to which it is a party and/or the Trustee to make payments under any Series of Certificates, or the ability of the Trustee or the Government to otherwise comply with their respective obligations under the Transaction Documents to which they are a party.

Effects of the Volcker Rule on the Trustee

The Trustee 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 Trustee 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 (a) engaging in proprietary trading, (b) acquiring or retaining an ownership interest in or sponsoring a "covered fund" and (c) 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 Rule 3a-5 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.

The Delegate may request that the Certificateholders provide an indemnity and/or security and/or pre-funding to its satisfaction

Pursuant to the Conditions and the Master Trust Deed, the Delegate may, in certain circumstances, request the Certificateholders to provide an indemnity and/or security and/or pre-funding to its satisfaction before it takes any action on behalf of Certificateholders. The Delegate shall not be obliged to take any such actions if not indemnified and/or secured and/or pre-funded to its satisfaction. Negotiating and agreeing to any indemnity and/or security and/or pre-funding can be a lengthy process and may have an impact on when such actions can be taken.

Credit ratings do not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Government or the Certificates. The ratings do not reflect the potential impact of all risks related to structure, market, additional factors discussed herein and 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.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes in the European Economic Area (the EEA), unless such ratings are issued by a credit rating agency established in the EEA and registered under the CRA Regulation (and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). Such general restriction will also apply in the case of credit ratings issued by third country non-EEA credit rating agencies, unless the relevant credit ratings are endorsed by an EEA-registered credit rating agency or the relevant third country rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

Investors regulated in the UK are subject to similar restrictions under the UK CRA Regulation. As such, UK regulated investors are required to use for UK regulatory purposes ratings issued by a credit rating agency established in the UK and registered under the UK CRA Regulation. In the case of ratings issued by third country non-UK credit rating agencies, third country credit ratings can either be: (a) endorsed by a UK registered credit rating agency; or (b) issued by a third country credit rating agency that is certified in accordance with the UK CRA Regulation. Note this is subject, in each case, to (a) the relevant UK registration, certification or endorsement, as the case may be, not having been withdrawn or suspended, and (b) transitional provisions that apply in certain circumstances. In the case of third country ratings, for a certain limited period of time, transitional relief accommodates continued use for regulatory purposes in the UK, of existing pre-2021 ratings, provided the relevant conditions are satisfied.

If the status of the rating agency rating the Certificates changes for the purposes of the CRA Regulation or the UK CRA Regulation, relevant regulated investors may no longer be able to use the rating for regulatory purposes in the EEA or the UK, as applicable, and the Certificates may have a different regulatory treatment, which may impact the value of the Certificates and their liquidity in the secondary market. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Offering Circular.

Interest or profit rate risks

Investment in Fixed Rate Certificates involves the risk that if market interest or profit rates subsequently increase above the Profit Rate paid on the Fixed Rate Certificates, this will adversely affect the value of the Fixed Rate Certificates.

Certificates with variable Profit Rates can be volatile investments. If they are structured to include caps or floors or a combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

The Certificates may be subject to exchange rate risks and exchange controls

The Trustee will pay all amounts due on any Certificates, and the Government will make any payments pursuant to the Transaction Documents to which it is a party, in the Specified Currency. 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 the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency 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. Any appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease: (a) the Investor's Currency-equivalent yield on the Certificates; (b) the Investor's Currency-equivalent value of the Dissolution Distribution Amount payable in respect of the Certificates; and (c) the Investor's Currency-equivalent market value of the Certificates.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less than expected, or no payment at all.

A secondary market may not develop or be maintained for the Certificates

The Certificates of any Series may have no established trading market when issued, and one may never develop. If a market for the Certificates does develop, it may not be very liquid. Therefore, investors may not be able to sell their Certificates easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

Certificates that have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade

In relation to any issue of Certificates, which have denominations consisting of the minimum Specified Denomination plus a higher integral multiple of another smaller amount, it is possible that such Certificates may be traded in amounts in excess of such minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case, a Certificateholder who, as a result of trading such amounts, holds a face amount of less than the minimum Specified Denomination in its account with the relevant clearing system, would not be able to sell the remainder of such holding without first purchasing a face amount of Certificates at, or in excess of, the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Certificateholders should be aware that Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

A Certificateholder who holds an amount, which is less than the minimum Specified Denomination in its 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 face amount of Certificates such that its holding amounts to at least a Specified Denomination in order to be eligible to receive a definitive Certificate. If definitive Certificates are issued, holders should be aware that definitive Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may also be illiquid and difficult to trade.

Investors in the Certificates must rely on DTC, Euroclear and Clearstream, Luxembourg procedures

Each Series of Certificates issued under the Programme will be represented on issue by one or more Global Certificates that may be deposited with, and registered in the name of a nominee for, DTC and/or a Common Depository for Euroclear and Clearstream, Luxembourg or may (each, as defined in "Summary of Provisions relating to the Certificates while in Global Form"). Except in the limited

circumstances described in each Global Certificate, investors will not be entitled to receive Certificates in definitive form. Each of DTC, Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the interests in each Global Certificate held through it. While the Certificates of each Series are represented by Global Certificates, investors will be able to trade their interests only through the relevant clearing systems and their respective participants.

While the Certificates of each Series are represented by Global Certificates, the Trustee will discharge its payment obligation under the Certificates by making payments through the relevant clearing systems. A holder of an interest in a Global Certificate must rely on the procedures of the relevant clearing system and its participants in relation to payments under the relevant Series of Certificates. The Trustee has no responsibility or liability for the records relating to, or payments made in respect of, interests in any Global Certificate.

Holders of interests in a Global Certificate will not have a direct right to vote in respect of the Certificates so represented. 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.

The regulation and reform of "benchmarks" may adversely affect the value of Certificates linked to or referencing such "benchmarks"

Interest rates and indices which are deemed to be "benchmarks" (including the Euro interbank offered rate (**EURIBOR**)) are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences, which cannot be predicted. Any such consequence could have a material adverse effect on any Certificates referencing such a benchmark.

Regulation (EU) 2016/2011 (the **EU Benchmarks Regulation**) applies, subject to certain transitional provisions, to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. Among other things, it (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed). The UK Benchmarks Regulation among other things, applies to the provision of benchmarks and the use of a benchmark in the UK. Similarly, it prohibits the use in the UK by UK supervised entities of benchmarks of administrators that are not authorised by the FCA or registered on the FCA register (or, if non-UK based, not deemed equivalent or recognised or endorsed).

The EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable, could have a material impact on any Certificates linked to or referencing a benchmark, in particular, if the methodology or other terms of the benchmark are changed in order to comply with the requirements of the EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant benchmark.

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements.

The working group on Euro risk-free rates for the Euro area has published a set of guiding principles and high level recommendations for fallback provisions in, *inter alia*, new Euro-denominated cash products (including bonds) referencing EURIBOR. The guiding principles indicate, *inter alia*, that continuing to reference EURIBOR in relevant contracts (without robust fallback provisions) may

increase the risk to the Euro area financial system. On 11 May 2021, the euro risk-free rate working group published its recommendations on EURIBOR fallback trigger events and fallback rates.

Such factors may have (without limitation) the following effects on certain benchmarks: (a) discouraging market participants from continuing to administer or contribute to a benchmark; (b) triggering changes in the rules or methodologies used in the benchmark; and/or (c) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Certificates linked to, referencing, or otherwise dependent (in whole or in part) upon, a benchmark.

The Conditions provide for certain fallback arrangements in the event that an original Reference Rate and/or any page on which an original Reference Rate may be published (or any other successor service) becomes unavailable or a Benchmark Event otherwise occurs. Such fallback arrangements include the possibility that the Profit Rate (or the relevant component part thereof) could be set by reference to a Successor Rate or an Alternative Reference Rate, with or without the application of an Adjustment Spread, and may include amendments to the Conditions, the Master Trust Deed and/or any other Transaction Document to ensure the proper operation of the successor or replacement benchmark, all as determined by an Independent Adviser, acting in good faith and following consultation with the Trustee and the Government, or the Government (acting in good faith and in a commercially reasonable manner), as applicable, and without the requirement for the consent or sanction of Certificateholders. An Adjustment Spread, if applied, is: (a) spread (which may be positive, negative or zero) or, (b) formula or methodology for calculating a spread which (i) in the case of a Successor Rate, is formally recommended or formally provided as an option for parties to adopt, in relation to the replacement of the original Reference Rate with the Successor Rate by any Relevant Nominating Body (which may include a relevant central bank, supervisory authority or group of central banks/supervisory authorities); (ii) (if no such recommendation has been made, or in the case of an Alternative Reference Rate), the Independent Adviser (following consultation with the Trustee and the Government) determines is customarily applied to the relevant Successor Rate or the Alternative Reference Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the original Reference Rate; or (iii) (if the Independent Adviser (following consultation with the Trustee and the Government) determines that no such spread, formula or methodology is customarily applied) the Independent Adviser (following consultation with the Trustee and the Government) determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate, as the case may be, or (iv) (if the Independent Adviser (following consultation with the Trustee and the Government) determines that there is no such industry standard) the Independent Adviser (following consultation with the Trustee and the Government) or the Government (as applicable) determines (acting in good faith and in a commercially reasonable manner) in their sole discretion to be appropriate. Accordingly, the application of an Adjustment Spread may result in the Certificates performing differently (which may include payment of a lower Profit Rate) than they would do if the original Reference Rate were to continue to apply in its current form. If no Adjustment Spread can be determined, a Successor Rate or Alternative Reference Rate may nonetheless be used to determine the Profit Rate (or the relevant component part thereof). The use of a Successor Rate or Alternative Reference Rate (including with or without the application of an Adjustment Spread) may still result in any Certificates linked to or referencing an original Reference Rate performing differently (which may include payment of a lower Profit Rate) than they would if the original Reference Rate were to continue to apply in its current form.

If, following the occurrence of a Benchmark Event, no Successor Rate or Alternative Reference Rate is determined, the ultimate fallback for the purposes of the calculation of the Profit Rate (or the relevant component part thereof) for the relevant immediately following Return Accumulation Period may result in the Profit Rate (or the relevant component part thereof) for the last preceding Return Accumulation

Period being used. This will result in the effective application of a fixed rate for Floating Rate Certificates based on the rate which was last observed on the Relevant Screen Page. Due to the uncertainty concerning the availability of Successor Rates and Alternative Reference Rates, the involvement of an Independent Adviser and the potential for further regulatory developments, there is a risk that the relevant fallback provisions may not operate as intended at the relevant time.

Risks relating to Enforcement

Enforcement risk

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 a district 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.

Waiver of sovereign immunity

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 set-off, 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 has agreed in the Transaction Documents to which it is a party not to claim and has irrevocably waived 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 Trustee and the Delegate (as the case may be) to enforce a related judgment. This waiver of immunities constitutes only a limited and specific waiver for purposes of the Transaction Documents and does not constitute a general waiver by the Government or a waiver with respect to proceedings unrelated to the Transaction Documents. The Government has not waived such immunities 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).

Claims for specific performance

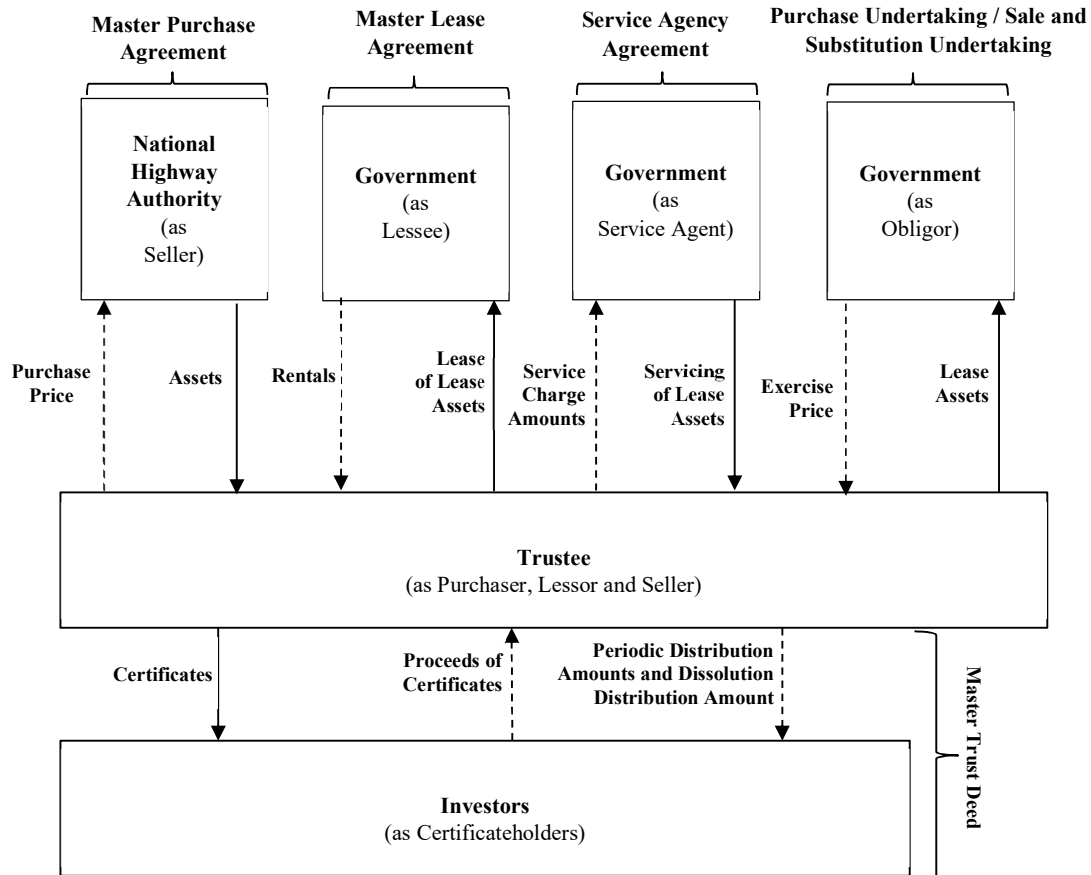
In the event that the Government fails to perform its obligations under the Transaction Documents to which it is a party, the potential remedies available to the Trustee and the Delegate (as the case may be) include obtaining an order for specific enforcement of the relevant obligations or a claim for damages. There is no assurance that any court would order specific performance of a contractual obligation.

The amount of damages, which a court may award in respect of a breach, will depend upon a number of possible factors including an obligation on the Trustee and the Delegate to mitigate any loss arising as a result of the breach. No assurance is provided on the level of damages which a court may award in the event of a failure by the Government to perform its obligations under the Transaction Documents to which it is a party.

STRUCTURE DIAGRAM AND CASH FLOWS

Set out below is a simplified structure diagram and description of the principal cash flows underlying each Series issued. Potential investors are referred to the terms and conditions of the Certificates set out in "Terms and Conditions of the Certificates" and the detailed descriptions of the relevant Transaction Documents set out in "Summary of the Principal Transaction Documents" for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below.

Structure Diagram



Payments by the Certificateholders and the Trustee

On the Issue Date of each Tranche of Certificates, the Certificateholders will pay the issue price (the **Issue Price**) in respect of the Certificates to the Trustee, and the Trustee will apply such amount to, or to the order of, the National Highway Authority (in its capacity as seller, the **Seller**) as the purchase price payable for the purchase from the Seller of all of its rights, title, interest, benefits and entitlements in, to and under certain Eligible Assets (as defined below) (in the case of the first Tranche of the relevant Series of Certificates, the **Assets** or, in the case of each subsequent Tranche of such Series, the **Additional Assets**) under the Master Purchase Agreement and the relevant Supplemental Purchase Agreement.

Eligible Assets means such assets owned by the Seller and located in Pakistan comprising any portion of highway specified in part I of the schedule to the National Highway Authority Act, 1991 (Act No. XI of 1991) of Pakistan as amended, together with (if any) all constructions, superstructures, flyovers and interchanges made thereon, as at the date of the relevant Supplemental Purchase Agreement or the relevant sale deed, as the case may be.

On or prior to the Issue Date of the first Tranche of each Series of Certificates, pursuant to the terms of the Master Lease Agreement and the relevant Supplemental Lease Agreement, the Trustee (in its capacity as Lessor, the **Lessor**) shall lease to the Government (in its capacity as Lessee, the **Lessee**) and the Lessee shall lease from the Lessor, the Assets (together with the Additional Assets in the case of each subsequent Tranche of such Series, the **Lease Assets**) for a lease term at least equal to the tenor of the relevant Certificates in consideration for payment of a periodic rental amount (the **Rental**). On or prior to the Issue Date of each subsequent Tranche of each such Series, the Lessor and the Lessee shall enter into a replacement Supplemental Lease Agreement for the lease of the Lease Assets in existence prior to such date and the Additional Assets.

Periodic Distribution Payments

On the Payment Business Day immediately preceding each Periodic Distribution Date, the Government (in its capacity as service agent, the **Service Agent**) shall apply amounts standing to the credit of a ledger account (the **Collection Account**) comprised of an amount equal to the Rental payable by the Lessee pursuant to the Master Lease Agreement, as supplemented by the relevant Supplemental Lease Agreement in connection with such Periodic Distribution Date, into an account maintained in London in the Trustee's name (the **Transaction Account**), which is intended to fund an amount equal to the aggregate of the Periodic Distribution Amounts payable by the Trustee under the Certificates of the relevant Series on the immediately following Periodic Distribution Date (the **Required Amount**) and shall be applied by the Trustee for that purpose.

Dissolution Payments

On the Payment Business Day immediately preceding the Scheduled Dissolution Date in relation to each Series, the Trustee shall have the right under the Purchase Undertaking to require the Government (acting in its capacity as obligor, the **Obligor**) to purchase from the Trustee all of the Trustee's rights, title, interest, benefits and entitlements in, to and under, the Lease Assets at the Exercise Price, and such amount is intended to fund the relevant Dissolution Distribution Amount payable by the Trustee under the Certificates of the relevant Series on the Scheduled Dissolution Date.

The Certificates in relation to any Series may be redeemed in whole prior to the Scheduled Dissolution Date for the following reasons: (i) if so specified in the applicable Pricing Supplement, at the option of the Government; (ii) following a Total Loss Event; and (iii) following a Dissolution Event.

In the case of each of (i) and (iii) above, such redemption of the Certificates shall be funded in a similar manner as for the payment of the relevant Dissolution Distribution Amount on the Scheduled Dissolution Date, save that, in the case of (i) only, the Government shall have the right under the Sale and Substitution Undertaking to require the Trustee to sell, transfer and convey to it all of the Trustee's rights, title, interest, benefits and entitlements in, to and under, the Lease Assets at the Exercise Price.

In the case of (ii) above, on the Total Loss Dissolution Distribution Date, the Trustee shall have the right under the Service Agency Agreement to receive all insurance proceeds relating to the Lease Assets together with, if applicable, any Loss Shortfall Amount payable by the Service Agent in connection therewith.

TERMS AND CONDITIONS OF THE CERTIFICATES

*The following is the text of the terms and conditions that, subject to completion in accordance with the provisions of Part A of the applicable Pricing Supplement (as defined below) shall be applicable to the Certificates in definitive form (if any) issued in exchange for the Global Certificate representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Pricing Supplement or (ii) these terms and conditions as so completed (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such definitive Certificates. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the applicable Pricing Supplement. Those definitions will be endorsed on the definitive Certificates. References in the Conditions to **Certificates** are to the Certificates of one Series only, not to all Certificates that may be issued under the Programme.*

The Pakistan Global Sukuk Programme Company Limited (in its capacity as issuer and in its capacity as trustee, the **Trustee**) has established a programme (the **Programme**) for the issuance of trust certificates (the **Certificates**).

The Certificates are constituted by a master trust deed dated 18 January 2022 between the Trustee, The President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan (the **Government**) and BNY Mellon Corporate Trustee Services Limited (the **Delegate**, which expression shall include all persons for the time being the delegate or delegates under the Master Trust Deed) (the **Master Trust Deed**) as supplemented by a supplemental trust deed entered into on or before the date of issue of the relevant Certificates (the **Issue Date**) in respect of the relevant Tranche (the **Supplemental Trust Deed** and, together with the Master Trust Deed, the **Trust Deed**).

An agency agreement (the **Agency Agreement**) dated 18 January 2022 has been entered into in relation to the Certificates between the Trustee, the Government, the Delegate, The Bank of New York Mellon, London Branch as principal paying agent (the **Principal Paying Agent**, which expression shall include any successor principal paying agent), as exchange agent (the **Exchange Agent**, which expression shall include any successor exchange agent) and as transfer agent (the **Transfer Agent**, which expression shall include any additional or successor transfer agent) and the other paying agents named therein (together with the Principal Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents) and The Bank of New York Mellon SA/NV, Dublin Branch as registrar (the **Registrar**, which expression shall include any successor registrar). The Principal Paying Agent, the Exchange Agent, the Transfer Agents, the Paying Agents, the Calculation Agent (if any is specified in the applicable Pricing Supplement) and the Registrar are together referred to as the **Agents**.

These terms and conditions (the **Conditions**) include summaries of, and are subject to, the detailed provisions of: (a) the Trust Deed, which includes the form of Certificates referred to below; (b) the Agency Agreement; and (c) the remaining Transaction Documents (as defined below). The Certificateholders are bound by, and are deemed to have notice of, all the provisions applicable to them in the Transaction Documents.

The pricing supplement for this Certificate (or the relevant provisions thereof) are set out in Part A of the Pricing Supplement attached to or endorsed on this Certificate which complete these Conditions. References to the **applicable Pricing Supplement** are, unless otherwise stated, to Part A of the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on the relevant Certificate.

Copies of the Transaction Documents are available for inspection and/or collection (including by way of email distribution) by Certificateholders during normal business hours from the specified office of the Principal Paying Agent.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct the Trustee, on behalf of the Certificateholders: (a) to apply the proceeds

of the issue of the Tranche of the Certificates in accordance with the terms of the Transaction Documents; and (b) to enter into, and perform its obligations under and in connection with, each Transaction Document to which it is a party, subject to the terms and conditions of the Trust Deed and these Conditions.

1. Interpretation

Unless defined herein or the context otherwise requires, any capitalised words and expressions used but not defined herein shall have the meaning given to them in the Trust Deed and the Agency Agreement. In addition, for the purposes of these Conditions, the following expressions have the following meanings:

Broken Amount means the amount specified as such in the applicable Pricing Supplement;

Business Day has the meaning given to it in Condition 8(i);

Calculation Amount means the amount specified as such in the applicable Pricing Supplement;

Cancellation Notice means a cancellation notice given pursuant to the terms of the Trust Deed;

Certificateholder or **holder** has the meaning given to it in Condition 2;

Conveyance Deed has the meaning given to it in the Purchase Undertaking;

Day Count Fraction has the meaning given to it in Condition 8(i);

Delegation has the meaning given to it in Condition 17(a);

Dispute has the meaning given to it in Condition 22(a);

Dissolution Date means, as the case may be:

- (a) the Scheduled Dissolution Date;
- (b) any Optional Dissolution Date;
- (c) the Total Loss Dissolution Date; or
- (d) any Dissolution Event Redemption Date;

Dissolution Distribution Amount means, in relation to each Certificate:

- (a) the sum of:
 - (i) the outstanding face amount of such Certificate; and
 - (ii) any accrued but unpaid Periodic Distribution Amounts for such Certificate; or
- (b) such other amount specified in the applicable Pricing Supplement as being payable upon any Dissolution Date (including any amount payable following a Total Loss Event pursuant to the Service Agency Agreement);

Dissolution Event means a Trustee Event or a Government Event;

Dissolution Event Redemption Date has the meaning given to it in Condition 13(a);

Dissolution Notice has the meaning given to it in Condition 13(a);

Electronic Consents has the meaning given to it in Condition 15(l)(i);

Exercise Price has the meaning given to it in the Purchase Undertaking or the Sale and Substitution Undertaking, as the context so requires;

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 Rupee;

Extraordinary Resolution has the meaning given to it in Condition 15(a)(vii);

Fixed Amount means, in respect of a Series in respect of which Fixed Periodic Distribution Provisions is specified as applicable in the applicable Pricing Supplement, the amount specified as such in the applicable Pricing Supplement;

Fixed Rate Certificates means a Series in respect of which Fixed Periodic Distribution Provisions is specified as applicable in the applicable Pricing Supplement;

Floating Rate Certificates means a Series in respect of which Floating Periodic Distribution Provisions is specified as applicable in the applicable Pricing Supplement;

Full Reinstatement Value has the meaning given to it in the Service Agency Agreement;

Government Event means each of the following events or circumstances:

- (a) default is made by the Government in the payment of any amount payable by it pursuant to any Transaction Document and the failure continues for a period of 14 days; or
- (b) a Partial Loss Dissolution Event occurs;
- (c) the Government (acting in any capacity): (i) delivers a notice to the Trustee and/or the Delegate pursuant to clause 4.1(d) of the Service Agency Agreement; or (ii) does not perform or comply with any one or more of its other obligations in respect of the Transaction Documents (including those set out in clauses 3.2 and 3.3 of the relevant Supplemental Lease Agreement but other than those set out in clause 4.1 of the Service Agency Agreement, the failure to comply with which shall not constitute a Government Event), which default 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; or
- (d) (i) the acceleration of the maturity (other than by optional or mandatory prepayment or redemption) of any External Indebtedness 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 (d) have occurred equals or exceeds U.S.\$50,000,000 or its equivalent; or

- (e) a moratorium on the payment of principal of, or interest on, the External Indebtedness of the Government shall be declared by the Government; or
- (f) the Government shall cease to be a member of the IMF or shall cease to be eligible to use the general resources of the IMF; or
- (g)
 - (i) the validity of its obligations under the Transaction Documents to which it is a party shall be contested by the Government; or
 - (ii) the Government shall deny any of its obligations under the Transaction Documents to which it is a party (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 to which it is a party, 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; or
- (h) any regulation, decree, consent, approval, licence or other authority necessary to enable the Government to make or perform its obligations under the Transaction Documents to which it is a party, 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; or
- (i) 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 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; or
- (j) the Lessee has disposed of the whole of its leasehold interest under the Lease Agreement;

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

- (a) an obligation to pay or purchase such Indebtedness;

- (b) 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;
- (c) an indemnity against the consequences of a default in the payment of such Indebtedness; or
- (d) any other agreement to be responsible for such Indebtedness;

IMF means the International Monetary Fund;

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);

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;

ISDA Definitions means the 2006 ISDA Definitions as amended and updated as at the date of issue of the first Tranche of the Certificates of the relevant Series (as specified in the applicable Pricing Supplement), as published by the International Swaps and Derivatives Association, Inc.;

Lease Agreement means the Master Lease Agreement, as supplemented by the relevant Supplemental Lease Agreement, as the same may be replaced from time to time in accordance with the provisions of the Master Lease Agreement;

Lease Assets has the meaning given to it in the Master Lease Agreement;

Lessee means the Government in its capacity as lessee under the Lease Agreement;

Lessor means the Trustee in its capacity as lessor under the Lease Agreement;

Loss Event means a Partial Loss Event and/or a Total Loss Event, as the context so requires;

Loss Shortfall Amount has the meaning given to it in the Service Agency Agreement;

Master Lease Agreement means the master lease agreement dated 18 January 2022 between the Trustee, the Government and the Delegate;

Master Purchase Agreement means the master purchase agreement dated 18 January 2022 between the Trustee and the National Highway Authority;

Optional Dissolution Date means, in relation to any exercise of the Optional Dissolution Right, the date(s) specified as such in the applicable Pricing Supplement and which must (if the Certificate is a Floating Rate Certificate) be a Periodic Distribution Date;

Optional Dissolution Right means the right specified in Condition 9(b);

Other Courts has the meaning given to it in Condition 22(a);

outstanding shall have the meaning given to it in the Trust Deed;

Pakistan means the Islamic Republic of Pakistan;

Partial Loss Dissolution Event means the termination of the lease of the Lease Assets in accordance with the Lease Agreement on the 61st day after the date of occurrence of the Partial Loss Event as a result of either: (a) provided that the Lease Assets have not been replaced in accordance with the Service Agency Agreement, the delivery by the Government of a Partial Loss Termination Notice to the Lessor within 30 days after the date of occurrence of the Partial Loss Event in accordance with the Lease Agreement; or (b) the failure by the Government to replace the Lease Assets within 60 days after the date of occurrence of the Partial Loss Event in accordance with the Service Agency Agreement;

Partial Loss Event means the partial impairment of one or more Lease Assets in a manner that substantially deprives the Lessee from the benefits expected from the whole of the Lease Assets, as determined by the Lessee and the occurrence of which (a) has been certified in writing by a recognised independent industry expert; and (b) does not constitute a Total Loss Event;

Partial Loss Termination Notice has the meaning given to it in the Lease Agreement;

Periodic Distribution Amount has the meaning given to it in Condition 8(a) or 8(b), as applicable;

Periodic Distribution Date means the date(s) specified as such in the applicable Pricing Supplement;

Periodic Distribution Period means the period beginning on and including the Profit Commencement Date and ending on but excluding the first Periodic Distribution Date and each successive period beginning on and including a Periodic Distribution Date and ending on but excluding the next succeeding Periodic Distribution Date;

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;

Potential Dissolution Event means any condition, circumstance, event or act which, with the giving of notice, lapse of time, declaration, demand, determination or fulfilment of any other applicable condition (or any combination of the foregoing), would constitute a Dissolution Event;

Profit Amount means:

- (a) in respect of a Return Accumulation Period, the amount of profit payable per Calculation Amount for that Return Accumulation Period and which, in the case of Fixed Rate Certificates, and unless otherwise specified in the applicable Pricing Supplement, shall mean the Fixed Amount or Broken Amount specified in the applicable Pricing Supplement as being payable on the Periodic Distribution Date ending on the Periodic Distribution Period of which such Return Accumulation Period forms part; and
- (b) in respect of any other period, the amount of profit payable per Calculation Amount for that period;

Profit Commencement Date means the Issue Date or such other date as may be specified in the applicable Pricing Supplement;

Profit Period Date means each Periodic Distribution Date unless otherwise specified in the applicable Pricing Supplement;

Profit Rate means the profit rate payable from time to time in respect of the Certificates and that is either specified in the applicable Pricing Supplement or calculated in accordance with the provisions hereof;

Profit Rate Determination Date means, with respect to a Profit Rate and Return Accumulation Period, the date specified as such in the applicable Pricing Supplement or, if none is so specified (a) the first day of such Return Accumulation Period, if the Specified Currency is sterling or (b) the day falling two Business Days for the Specified Currency prior to the first day of such Return Accumulation Period, if the Specified Currency is neither sterling nor Euro, or (c) the day falling two TARGET Business Days prior to the first day of such Return Accumulation Period, if the Specified Currency is Euro;

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 (sukuk) 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;

Purchase Agreement means the Master Purchase Agreement, as supplemented, in relation to each Series, by each relevant Supplemental Purchase Agreement;

Purchase Undertaking means the purchase undertaking dated 18 January 2022 executed by the Government in favour of the Trustee and the Delegate;

Record Date has the meaning given to it in Condition 10(a);

Reference Banks means four major banks selected by the Government (in consultation with the Calculation Agent) in the inter-bank market that is most closely connected with the Reference Rate;

Reference Rate means EURIBOR, as specified in the applicable Pricing Supplement;

Register has the meaning given to it in Condition 2;

Related Judgment has the meaning given to it in Condition 22(a);

Related Proceeding has the meaning given to it in Condition 22(a);

Relevant Date has the meaning given to it in Condition 11;

Relevant Financial Centre means the financial centre specified as such in the applicable Pricing Supplement and, if no such financial centre is specified, the financial centre most closely connected with the relevant Reference Rate;

Relevant Jurisdiction has the meaning given to it in Condition 11;

Relevant Powers has the meaning given to it in Condition 17(a)

Relevant Screen Page means such page, section, caption, column or other part of a particular information service as may be specified in the applicable Pricing Supplement or such other

page, section, caption, column or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

Relevant Time means the time specified as such in the applicable Pricing Supplement;

Rental has the meaning given to it in the Master Lease Agreement;

Required Amount has the meaning given to it in the Service Agency Agreement;

Return Accumulation Period means the period beginning on (and including) the Profit Commencement Date and ending on (but excluding) the first Profit Period Date and each successive period beginning on (and including) a Profit Period Date and ending on (but excluding) the next succeeding Profit Period Date;

Sale and Substitution Undertaking means the sale and substitution undertaking dated 18 January 2022 executed by the Trustee in favour of the Government;

Sale Deed has the meaning given to it in the Master Purchase Agreement;

Scheduled Dissolution Date means the date specified as such in the applicable Pricing Supplement;

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 whether in effect on the Issue Date or thereafter. For the avoidance of doubt, any right or obligation granted directly or indirectly to holders of sukuk representing the credit of Pakistan or in respect of any other Shari'a compliant financing (including, but not limited to, a Shari'a compliant sale and Ijara (lease) financing) having an analogous effect (and howsoever documented) shall not of itself comprise Security for the purposes of Condition 5;

Series means a Tranche of Certificates together with any further Tranche or Tranches of Certificates which (a) are expressed to be consolidated and form a single series and (b) have the same terms and conditions or terms and conditions which are the same in all respects save for the amount and date of the first payment of Periodic Distribution Amounts thereon and the Profit Commencement Date;

Service Agency Agreement means the service agency agreement dated 18 January 2022 between the Trustee and the Government;

Service Agent means the Government in its capacity as service agent under the Service Agency Agreement;

Shari'a Adviser has the meaning given to it in the Service Agency Agreement;

Specified Courts has the meaning given to it in Condition 22(a);

Specified Currency means the currency specified as such in the applicable Pricing Supplement or, if none is specified, the currency in which the Certificates are denominated;

Specified Denominations means the amount(s) specified as such in the applicable Pricing Supplement;

Supplemental Purchase Agreement has the meaning given to it in the Master Purchase Agreement;

Supplemental Lease Agreement has the meaning given to it in the Master Lease Agreement;

TARGET Business Day has the meaning given to it in Condition 8(i);

TARGET System means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto;

Total Loss Dissolution Date has the meaning given to it in Condition 9(c);

Total Loss Event has the meaning given to it in Condition 9(c);

Tranche means Certificates which are identical in all respects (including as to listing and admission to trading);

Transaction Account means, in relation to each Series, the non-interest bearing account maintained in London in the Trustee's name held with The Bank of New York Mellon, London Branch, details of which are specified in the applicable Pricing Supplement;

Transaction Documents means, in relation to each Series:

- (a) the Trust Deed;
- (b) the Agency Agreement;
- (c) the Purchase Agreement;
- (d) the Lease Agreement;
- (e) the Service Agency Agreement;
- (f) the Purchase Undertaking; and
- (g) the Sale and Substitution Undertaking,

each, as may be amended, restated and/or supplemented from time to time;

Trust means, in respect of a Series, the trust created by the Trustee over the Trust Assets pursuant to the Trust Deed;

Trust Assets has the meaning given to it in Condition 6(a); and

Trustee Event means any of the following events:

- (a) default is made by the Trustee in the payment of any Periodic Distribution Amount or the Dissolution Distribution Amount and the failure continues for a period of 14 days;
- (b) the failure by the Trustee to observe or perform any other provision of these Conditions and/or the Transaction Documents to which it is a party if, where it is not clearly impossible to remedy such failure, it is not remedied within 60 days following service by the Delegate on the Trustee of notice requiring the same to be remedied;

- (c) (i) the Trustee becomes insolvent or is unable to pay its debts as they fall due, or (ii) an administrator, receiver, liquidator or similar official of the Trustee 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 Trustee, or (iii) the Trustee 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 Trustee 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
- (d) an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Trustee.

All references to the **face amount** of a Certificate shall be deemed to include the relevant Dissolution Distribution Amount, any additional amounts (other than relating to Periodic Distribution Amounts) which may be payable under Condition 11 and any other amount in the nature of face amounts payable pursuant to these Conditions.

All references to **Periodic Distribution Amounts** shall be deemed to include any additional amounts in respect of profit distributions which may be payable under Condition 11 and any other amount in the nature of a profit distribution payable pursuant to these Conditions.

All references to **U.S.\$** and **U.S. Dollars** are to the lawful currency of the United States of America.

All references to **ISDA** and related terms are only included for the purposes of benchmarking.

2. **Form, Denomination and Title**

The Certificates are issued in registered form in the Specified Denomination(s) shown in the applicable Pricing Supplement. The Certificates may be Fixed Rate Certificates, Floating Rate Certificates or a combination of the foregoing, depending upon the profit basis specified in the applicable Pricing Supplement.

Certificates are represented by registered certificates and, save as provided in Condition 3(b), each Certificate shall represent the entire holding of Certificates by the same holder.

Title to the Certificates shall pass by registration in the register that the Trustee shall procure to be kept by the Registrar outside the United Kingdom in accordance with the provisions of the Agency Agreement (the **Register**). Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the Register. Except as ordered by a court of competent jurisdiction or as required by applicable law, the registered holder of any Certificate shall be deemed to be and may be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it or its theft or loss) and no person shall be liable for so treating the holder. The registered holder of a Certificate will be recognised by the Trustee as entitled to his Certificate free from any equity, set-off or counterclaim on the part of the Trustee against the original or any intermediate holder of such Certificate.

In these Conditions, **Certificateholder** or **holder** means the person in whose name a Certificate is registered and capitalised terms have the meanings given to them in the applicable Pricing Supplement, the absence of any such meaning indicating that such term is not applicable to the Certificates.

Upon issue, the Certificates will be represented by one or more Global Certificates which will be deposited with, and registered in the name of a nominee for, The Depository Trust Company (DTC) and/or a common depository for Euroclear Bank SA/NV (Euroclear) and Clearstream Banking S.A. (Clearstream, Luxembourg). Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by DTC, Euroclear and Clearstream, Luxembourg (as applicable), and their respective participants. The Conditions are modified by certain provisions contained in the Global Certificate.

Except in limited circumstances, owners of interests in the Global Certificate will not be entitled to receive definitive Certificates representing their holdings of Certificates. See "Summary of Provisions relating to the Certificates while in Global Form".

3. Transfers

- (a) **Transfer of Certificates:** Subject to Condition 3(d), one or more Certificates may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the certificate representing such Certificates to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Trustee) duly completed and executed and any other evidence as the Registrar or the relevant Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Certificates represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Certificates to a person who is already a holder of Certificates, a new certificate representing the enlarged holding shall only be issued against surrender of the certificate representing the existing holding. All transfers of Certificates and entries on the Register will be made subject to the detailed regulations concerning transfers of Certificates scheduled to the Agency Agreement (the **Regulations**). The Regulations may be changed by the Trustee, with the prior written approval of the Registrar and the Delegate or by the Registrar with the prior written approval of the Delegate, provided that any such change is not materially prejudicial to the interests of the Certificateholders. A copy of the current Regulations will be made available by the Registrar to any Certificateholder upon request.
- (b) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Condition 3(a) shall be available for delivery within five business days (or such longer period as may be required to comply with any applicable fiscal or other regulations) of receipt of the form of transfer and surrender of the Certificate for exchange. Delivery of the new Certificate shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery of such form of transfer and surrender of such Certificate shall have been made or, at the option of the holder making such delivery and surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance or *takaful* as it may specify. In this Condition 3(b), **business day** means a day, other than a Saturday or a Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).
- (c) **Transfers Free of Charge:** Transfers of Certificates on registration, transfer, exercise of an option or partial dissolution shall be effected without charge by or on behalf of

the Trustee, the Registrar or the Transfer Agents, but upon payment of any stamp duty, tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security as the Trustee, the Registrar or the relevant Transfer Agent may require).

- (d) **Closed Periods:** No Certificateholder may require the transfer of a Certificate to be registered (i) during the period of 15 days ending on (and including) the due date for payment of any Dissolution Distribution Amount or Periodic Distribution Amount or any other date on which any payment of the face amount or payment of any profit in respect of that Certificate falls due, (ii) during the period of 15 days prior to any date on which Certificates may be called for redemption pursuant to Condition 9(b), (iii) after any such Certificate has been called for redemption, or (iv) during the period of seven days ending on (and including) any Record Date.

4. Status

- (a) **Status of Certificates:** The Certificates represent an undivided ownership interest in the relevant Trust Assets, subject to the terms of the Trust Deed and these Conditions and are limited recourse obligations of the Trustee. Each Certificate will constitute unsecured obligations of the Trustee and shall at all times rank *pari passu*, without any preference or priority, with the other Certificates of the relevant Series.

The payment obligations of the Government (in any capacity) to the Trustee under the Transaction Documents to which it is a party in respect of each Series of Certificates are direct, unconditional and (subject to Condition 5) unsecured obligations of the Government and shall at all times rank pari passu with all other present and future unsecured and unsubordinated External Indebtedness of the Government provided, further, that the Government shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due under the Transaction Documents and vice versa. 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) **Limited Recourse and Agreement of Certificateholders:** Save as provided in this Condition 4(b), the Certificates do not represent an interest in, or obligation of, any of the Trustee, the Delegate, the Government or any of the Agents.

The proceeds of the relevant Trust Assets are the sole source of payments on the Certificates of each Series. The net proceeds of the realisation of, or enforcement with respect to, the relevant Trust Assets may not be sufficient to make all payments due in respect of the Certificates. Certificateholders, by subscribing for or acquiring the Certificates, acknowledge and agree that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

- (i) no payment of any amount whatsoever shall be made by the Trustee or the Delegate or any directors, officers, employees or agents on their behalf except to the extent funds are available therefor from the relevant Trust Assets and further acknowledge and agree that no recourse shall be had for the payment of any amount due and owing hereunder or under any Transaction Document, whether for the payment of any fee, indemnity or other amount hereunder or any other obligation or claim arising out of or based upon the Transaction Documents, against the Trustee to the extent the Trust Assets have been exhausted, following which all obligations of the Trustee shall be extinguished;

- (ii) if the proceeds of the Trust Assets are insufficient to make all payments due in respect of the Certificates, Certificateholders will have no recourse to any assets of the Trustee (and/or its directors, officers or agents in their capacity as such) (other than the relevant Trust Assets), or the Delegate, the Agents or any of their respective directors, officers, employees or agents, in respect of any shortfall or otherwise;
- (iii) no Certificateholders will be able to petition for, institute or join with any other person in instituting proceedings for, the reorganisation, arrangement, liquidation, bankruptcy, winding-up or receivership or other proceedings under any bankruptcy or similar law against the Trustee, the Delegate, the Agents or any of their respective directors, officers, employees or agents as a consequence of such shortfall or otherwise;
- (iv) no recourse (whether by institution or enforcement of any legal proceedings or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Trustee or the Delegate arising under or in connection with the Trust Deed and the Certificates by virtue of any customary law, statute or otherwise shall be had against any officer, employee or director of the Trustee or the Delegate (as applicable) in their capacity as such. The obligations of the Trustee and the Delegate under the Transaction Documents are corporate or limited liability obligations of the Trustee or the Delegate (as applicable) and no personal liability shall attach to or be incurred by the officers, employees, agents or directors of the Trustee or the Delegate (as applicable) in their capacity as such, save in the case of the relevant party's negligence, wilful default or actual fraud (as determined by a finding to such effect by a court of competent jurisdiction in relation to the conduct of the relevant party); and
- (v) it shall not be entitled to claim or exercise any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of such Certificate.

Pursuant to the terms of the Transaction Documents, the Government is obliged to make payments under the Transaction Documents directly to or to the order of the Trustee (for and on behalf of the Certificateholders). Such payment obligations form part of the Trust Assets and the Trustee and the Delegate will thereby have direct recourse against the Government to recover payments due to the Trustee from the Government pursuant to the Transaction Documents notwithstanding any other provision of this Condition 4(b). Such right of the Trustee and the Delegate shall (subject to Condition 5) constitute an unsecured claim against the Government. None of the Certificateholders, the Trustee or the Delegate shall be entitled to claim any priority right in respect of any specific assets of the Government in connection with the enforcement of any such claim.

5. Negative Pledge

- (a) The Government undertakes that, so long as any Certificate remains outstanding, the Government will not, save for the exceptions set out below in Condition 5(b), 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 Transaction Documents to which it is a party equally and rateably therewith or providing such other arrangement (whether or not

comprising Security) as shall be approved by an Extraordinary Resolution of Certificateholders.

- (b) The following exceptions apply to the Government's obligations under Condition 5(a):
- (i) 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;
 - (ii) 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;
 - (iii) 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
 - (iv) any Security securing Public External Indebtedness of the Government or any Guarantee by the Government of Public External Indebtedness of any other person incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project; provided that (A) the holders of such Public External Indebtedness or Guarantee expressly agree to limit their recourse to the assets and revenues of such project or the proceeds of insurance thereon as the principal source of repayments of such Public External Indebtedness and (B) the property over which such Security is granted consists solely of such assets and revenues.

The State Bank of Pakistan holds International Monetary Assets, including gold and foreign exchange. As the State Bank of Pakistan is a juridical entity separate from the Government, the Government believes that the negative pledge covenant in Condition 5(a) does not apply to the International Monetary Assets held by the State Bank of Pakistan. The State Bank of Pakistan could therefore incur Public External Indebtedness secured by International Monetary Assets without securing amounts payable by the Government under the Transaction Documents to which it is a party equally and rateably.

6. The Trust

- (a) **Trust Assets:** Pursuant to the Trust Deed, the Trustee holds the Trust Assets for each Series upon trust absolutely for and on behalf of the Certificateholders of such Series *pro rata* according to the face amount of Certificates held by each holder. The term **Trust Assets** in respect of each Series means the following:
- (i) the cash proceeds of the issue of Certificates, pending application thereof in accordance with the terms of the Transaction Documents;
 - (ii) all of the Trustee's rights, title, interest, benefits and entitlements, present and future, in, to and under the Lease Assets;

- (iii) all of the Trustee's rights, title, interest, benefits and entitlements, present and future, in, to and under the Transaction Documents (excluding the covenant given to the Trustee pursuant to clause 13.1 of the Master Trust Deed);
- (iv) all monies standing to the credit of the Transaction Account from time to time; and

all proceeds of the foregoing.

- (b) **Application of Proceeds from Trust Assets:** On each Periodic Distribution Date and on any Dissolution Date, the Principal Paying Agent shall apply the monies standing to the credit of the relevant Transaction Account in the following order of priority (in each case only if and to the extent that payments of a higher priority have been made in full):

- (i) *first*, (to the extent not previously paid) to the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate (including any amounts owing to the Delegate in respect of its Appointees (as defined in the Master Trust Deed)) and to any receiver, manager or administrative receiver or any other analogous officer appointed in respect of the Trust by the Delegate in accordance with the Trust Deed, in each case as notified to the Trustee and the Government on or before such Periodic Distribution Date or Dissolution Date, as the case may be;
- (ii) *second*, in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due but unpaid;
- (iii) *third*, only if such payment is due on a Dissolution Date, in or towards payment *pari passu* and rateably of the relevant Dissolution Distribution Amount; and
- (iv) *fourth*, only if such payment is made on a Dissolution Date and provided that all amounts required to be paid in respect of the Certificates hereunder have been discharged in full, in payment of any residual amount to the Government.

- (c) **Transaction Account:** The Trustee will establish a Transaction Account in London in respect of each Series by no later than the relevant Issue Date. The Transaction Account shall be operated by the Principal Paying Agent on behalf of the Trustee.

7. Trustee Covenants

The Trustee covenants that, for so long as any Certificate is outstanding, it shall not (without the prior written consent of the Delegate):

- (a) incur any indebtedness in respect of borrowed money whatsoever (including by way of any analogous Islamic financing transaction), or give any guarantee or indemnity in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares), except, in all cases, as contemplated in the Transaction Documents;
- (b) secure any of its present or future indebtedness for borrowed money by any lien, pledge, charge or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law);

- (c) sell, lease, transfer, assign, participate, exchange or otherwise dispose of, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise) (or permit such to occur or suffer such to exist), any part of its interests in any of the Trust Assets except pursuant to any of the Transaction Documents;
- (d) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;
- (e) (except as contemplated in the Transaction Documents) amend or agree to any amendment of any Transaction Document or its Articles of Association other than in accordance with the terms of the Transaction Documents;
- (f) (except as contemplated in the Transaction Documents) act as trustee in respect of any trust other than the Trust or in respect of any parties other than the Certificateholders;
- (g) have any subsidiaries or employees;
- (h) redeem or purchase any of its shares or pay any dividend or make any other distribution to its shareholders;
- (i) put to its directors or shareholders any resolution for or appoint any liquidator for its winding up or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it; and
- (j) enter into any contract, transaction, amendment, obligation or liability other than in connection with the Certificates and the Transaction Documents or as expressly contemplated, permitted or required thereunder or engage in any business or activity other than:
 - (i) as provided for or permitted in the Transaction Documents;
 - (ii) the ownership, management and disposal of the Trust Assets as provided in the Transaction Documents; and
 - (iii) such other matters which are incidental thereto.

8. Periodic Distribution Amounts

- (a) **Fixed Rate Certificates:** Each Fixed Rate Certificate bears profit on its outstanding face amount from the Profit Commencement Date at the rate per annum (expressed as a percentage) equal to the Profit Rate, such profit being payable in arrear on each Periodic Distribution Date. Each such amount of profit is referred to in these Conditions as a **Periodic Distribution Amount**. Periodic Distribution Amounts shall be distributed to Certificateholders by the Principal Paying Agent on behalf of the Trustee, *pro rata* to their respective holdings, out of amounts transferred to the Transaction Account pursuant to the terms of the Transaction Documents and subject to Condition 6(b) and Condition 10.
- (b) **Floating Rate Certificates**
 - (i) *Periodic Distribution Amounts and Periodic Distribution Dates:* Each Floating Rate Certificate bears profit on its outstanding face amount from the Profit

Commencement Date at the rate per annum (expressed as a percentage) equal to the Profit Rate, such profit being payable in arrear on each Periodic Distribution Date. Each such amount of profit is referred to in these Conditions as a **Periodic Distribution Amount**. Such Periodic Distribution Date(s) is/are either shown in the applicable Pricing Supplement as Specified Periodic Distribution Dates or, if no Specified Periodic Distribution Date(s) is/are shown in the applicable Pricing Supplement, **Periodic Distribution Date** shall mean each date which falls the number of months or other period shown in the applicable Pricing Supplement as the Periodic Distribution Period after the preceding Periodic Distribution Date or, in the case of the first Periodic Distribution Date, after the Profit Commencement Date. Periodic Distribution Amounts shall be distributed to Certificateholders by the Principal Paying Agent on behalf of the Trustee, *pro rata* to their respective holdings, out of amounts transferred to the Transaction Account pursuant to the terms of the Transaction Documents and subject to Condition 6(b) and Condition 10.

- (ii) *Business Day Convention*: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.
- (iii) *Profit Rate for Floating Rate Certificates*: The Profit Rate in respect of Floating Rate Certificates for each Return Accumulation Period shall be determined in the manner specified in the applicable Pricing Supplement and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the applicable Pricing Supplement.

(A) ISDA Determination for Floating Rate Certificates

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Profit Rate is to be determined, the Profit Rate for each Return Accumulation Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this paragraph (A), **ISDA Rate** for a Return Accumulation Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified in the applicable Pricing Supplement;

- (y) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (z) the relevant Reset Date is the first day of that Return Accumulation Period unless otherwise specified in the applicable Pricing Supplement.

For the purposes of this paragraph (A), **Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity, Reset Date and Swap Transaction** have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Certificates

- (x) Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Profit Rate is to be determined, the Profit Rate for each Return Accumulation Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (as specified in the applicable Pricing Supplement) which appears or appear, as the case may be, on the Relevant Screen Page at the Relevant Time on the Profit Rate Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

- (y) If the Relevant Screen Page is not available, or if paragraph (x)(1) above applies and no such offered quotation appears on the Relevant Screen Page or if paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the Relevant Time, subject as provided below, the Calculation Agent shall request the principal office in the Relevant Financial Centre of each of the Reference Banks to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Relevant Time on the Profit Rate Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Profit Rate for such Return Accumulation Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent.

- (z) Subject to Condition 8(c) below, if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Profit Rate shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered at the Relevant Time on the relevant Profit Rate Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the Relevant Financial Centre inter-bank market, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Relevant Time, on the relevant Profit Rate Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in the Relevant Financial Centre inter-bank market, provided that, if the Profit Rate cannot be determined in accordance with the foregoing provisions of this paragraph (z), the Profit Rate shall be determined as at the last preceding Profit Rate Determination Date (though substituting, where a different Margin or Maximum Profit Rate or Minimum Profit Rate is to be applied to the relevant Return Accumulation Period from that which applied to the last preceding Return Accumulation Period, the Margin or Maximum Profit Rate or Minimum Profit Rate relating to the relevant Return Accumulation Period, in place of the Margin or Maximum Profit Rate or Minimum Profit Rate relating to that last preceding Return Accumulation Period).
- (iv) *Linear Interpolation:* Where Linear Interpolation is specified as applicable in respect of a Periodic Distribution Period in the applicable Pricing Supplement, the Profit Rate for such Periodic Distribution Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Pricing Supplement) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Pricing Supplement), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Periodic Distribution Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Periodic Distribution Period, provided however that, if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

For the purposes of this paragraph (B), **Designated Maturity** means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

(c) **Benchmark Replacement**

Notwithstanding the other provisions of this Condition 8, if the Trustee and the Government determine that a Benchmark Event has occurred in relation to the relevant Reference Rate specified in the applicable Pricing Supplement when any Profit Rate (or the relevant component part thereof) applicable to the Certificates for any Return Accumulation Period remains to be determined by such Reference Rate, then the following provisions shall apply:

- (i) the Trustee and the Government shall use their reasonable endeavours to appoint, as soon as reasonably practicable, an Independent Adviser to determine no later than five Business Days prior to the relevant Profit Rate Determination Date relating to the next succeeding Return Accumulation Period (the **IA Determination Cut-Off Date**), a Successor Rate or, alternatively, if there is no Successor Rate, an Alternative Reference Rate and, in either case, an Adjustment Spread for the purposes of determining the Profit Rate (or the relevant component part thereof) applicable to the Certificates;
- (ii) if (A) the Trustee and the Government are unable to appoint an Independent Adviser; or (B) the Independent Adviser appointed by the Trustee and the Government fails to determine a Successor Rate or, failing which, an Alternative Reference Rate and/or, in either case, an Adjustment Spread in accordance with this Condition 8(c) prior to the relevant IA Determination Cut-Off Date, then the Government (acting in good faith and in a commercially reasonable manner) may elect to determine the Successor Rate or, failing which, an Alternative Reference Rate (as applicable) and/or, in either case, an Adjustment Spread itself for the purposes of determining the Profit Rate (or the relevant component part thereof) applicable to the Certificates or, if applicable, any Benchmark Amendments, to ensure the proper operation of such Successor Rate or Alternative Reference Rate and/or (in either case) the applicable Adjustment Spread (with the relevant provisions in this Condition 8(c) applying *mutatis mutandis*) to allow such determinations to be made by the Government without consultation with the Independent Adviser;
- (iii) if a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) is determined in accordance with the preceding provisions, such Successor Rate or, failing which, Alternative Reference Rate (as applicable) shall be the Reference Rate for each of the future Return Accumulation Periods in respect of such Certificates (subject to the subsequent operation of, and to adjustment as provided in, this Condition 8(c));
- (iv) the Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Reference Rate (as the case may be), provided however, that if the Independent Adviser (following consultation with the Trustee and the Government), or the Government (acting in good faith and in a commercially reasonable manner), fails to determine the Adjustment Spread in accordance with this Condition 8(c) prior to the relevant Profit Rate Determination Date, then the Successor Rate or Alternative Reference Rate, as determined in accordance with this Condition 8(c), will apply without an Adjustment Spread;

- (v) if any Successor Rate, Alternative Reference Rate or Adjustment Spread is determined in accordance with this Condition 8(c) and the Independent Adviser (following consultation with the Trustee and the Government), or the Government (acting in good faith and in a commercially reasonable manner), as applicable, determines: (A) that amendments to these Conditions, the Master Trust Deed and/or any other Transaction Document (including, without limitation, amendments to the definitions of Day Count Fraction, Business Day, Business Day Convention, Profit Rate Determination Date or Relevant Screen Page) are necessary to ensure the proper operation of such Successor Rate, Alternative Reference Rate and/or Adjustment Spread (such amendments, the Benchmark Amendments) and (B) the terms of the Benchmark Amendments, then, at the direction and expense of the Government and subject to delivery of a notice in accordance with Condition 8(c)(vi) and the certificate in accordance with this Condition 8(c)(v): (x) the Trustee and the Government shall vary these Conditions, the Master Trust Deed and/or any other Transaction Document to give effect to such Benchmark Amendments with effect from the date specified in such notice; and (y) the Delegate and the Agents shall (at the Government's expense), without any requirement for the consent or sanction of the Certificateholders, be obliged to concur with the Trustee and the Government in effecting such Benchmark Amendments, provided that none of the Delegate nor any Agent shall be required to effect any such Benchmark Amendments if the same would impose, in its opinion, more onerous obligations upon it or expose it to any liability against which it is not adequately indemnified and/or secured and/or prefunded to its satisfaction or impose any additional duties, responsibilities or liabilities or reduce or amend its rights and/or the protective provisions afforded to it.

Prior to any such Benchmark Amendments taking effect, the Government shall provide a certificate signed by two Authorised Signatories of the Government to the Trustee, the Delegate and the Principal Paying Agent, certifying that such Benchmark Amendments are: (x) in the Government's reasonable opinion (following consultation with the Trustee and the Independent Adviser), necessary to give effect to any application of this Condition 8(c); and (y) in each case, have been drafted solely to such effect, and the Trustee, the Delegate and the Agents shall be entitled to rely on such certificates without further enquiry or liability to any person. For the avoidance of doubt, none of the Delegate or any Agent shall be liable to the Certificateholders or any other person for so acting or relying on such certificate, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such Certificateholder or person;

- (vi) the Trustee (failing which, the Government) shall promptly, following the determination of any Successor Rate or Alternative Reference Rate (as applicable) and the specific terms of any Benchmark Amendments, give notice to the Delegate, the Agents and, in accordance with Condition 19, the Certificateholders confirming: (A) that a Benchmark Event has occurred; (B) the Successor Rate or Alternative Reference Rate (as applicable); (C) any applicable Adjustment Spread; and (D) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 8(c);
- (vii) if, following the occurrence of a Benchmark Event and in relation to the determination of the Profit Rate (or the relevant component part thereof) on the

immediately following Profit Rate Determination Date, no Successor Rate or Alternative Reference Rate (as applicable) is determined pursuant to this provision, then the Profit Rate (or the relevant component part thereof) shall be determined as at the last preceding Profit Rate Determination Date (though substituting, where a different Margin or Maximum Profit Rate or Minimum Profit Rate is to be applied to the relevant Return Accumulation Period from that which applied to the last preceding Return Accumulation Period, the Margin or Maximum Profit Rate or Minimum Profit Rate relating to the relevant Return Accumulation Period, in place of the Margin or Maximum Profit Rate or Minimum Profit Rate relating to that last preceding Return Accumulation Period). For the avoidance of doubt, this Condition 8(c)(vii) shall apply to the relevant immediately following Return Accumulation Period only and any subsequent Return Accumulation Periods are subject to the subsequent operation of and to adjustment as provided in, this Condition 8(c); and

- (viii) the Independent Adviser appointed pursuant to this Condition 8(c) shall act and make all determinations pursuant to this Condition 8(c) in good faith and the Independent Adviser shall act as an expert. In the absence of bad faith, wilful default or fraud, none of the Independent Adviser, the Trustee and the Government shall have any liability whatsoever to the Principal Paying Agent, the Paying Agents or the Certificateholders in connection with any determination made by it or, in the case of the Independent Adviser, for any advice given to the Government in connection with any determination made by the Government pursuant to this Condition 8(c).

For the purposes of this Condition 8(c):

Adjustment Spread means either (a) a spread (which may be positive, negative or zero), or (b) a formula or methodology for calculating a spread, in each case, to be applied to the Successor Rate or the Alternative Reference Rate (as the case may be) and is the spread, formula or methodology which:

- (i) in the case of a Successor Rate, is formally recommended, or formally provided as an option for parties to adopt, in relation to the replacement of the relevant Reference Rate with the Successor Rate by any Relevant Nominating Body; or
- (ii) (if no such recommendation has been made, or in the case of an Alternative Reference Rate) the Independent Adviser (following consultation with the Trustee and the Government) determine is customarily applied to the relevant Successor Rate or the Alternative Reference Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the relevant Reference Rate; or
- (iii) (if the Independent Adviser (following consultation with the Trustee and the Government) determines that no such spread, formula or methodology is customarily applied) the Independent Adviser (following consultation with the Trustee and the Government) determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the relevant Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as the case may be); or
- (iv) (if the Independent Adviser (following consultation with the Trustee and the Government) determines that there is no such industry standard) the

Independent Adviser (following consultation with the Trustee and the Government) or the Government (as applicable) determines (acting in good faith and in a commercially reasonable manner) in their sole discretion to be appropriate;

Alternative Reference Rate means an alternative benchmark or screen rate which the Independent Adviser (following consultation with the Trustee and the Government) determines, in accordance with this Condition 8(c), is customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Certificates and of a comparable duration to the relevant Return Accumulation Period or, if the Independent Adviser or the Government (as applicable) determines that there is no such rate, such other rate as the Independent Adviser or the Government (as applicable) determines in their sole discretion is most comparable to the relevant Reference Rate;

Benchmark Event means: (i) the relevant Reference Rate ceasing to be published as a result of such benchmark ceasing to be calculated or administered or ceasing to exist for at least five Business Days; or (ii) a public statement by the administrator of the relevant Reference Rate that it has ceased or that it will, by a specified future date, cease publishing the relevant Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the relevant Reference Rate); or (iii) a public statement by the supervisor of the administrator of the relevant Reference Rate, that the relevant Reference Rate has been or will, by a specified future date, be permanently or indefinitely discontinued; or (iv) a public statement by the supervisor of the administrator of the relevant Reference Rate as a consequence of which, by a specified future date, the relevant Reference Rate will be prohibited from being used either generally, or in respect of the Certificates; or (v) a public statement by the supervisor of the administrator of the relevant Reference Rate that, in the view of such supervisor, such Reference Rate is or will be (or is or will be deemed by such supervisor to be), by a specified future date, no longer representative of an underlying market or (vi) it has become unlawful for the Trustee, the Government, the Calculation Agent or any Paying Agent to calculate any payments due to be made to any Certificateholder using the relevant Reference Rate, provided that, where the relevant Benchmark Event is a public statement within subparagraphs (ii), (iii), (iv) and (v) above and the relevant specified future date in the public statement is more than six months after the date of that public statement, the Benchmark Event shall not be deemed to occur until the date falling six months prior to such specified future date;

Financial Stability Board means the organisation established by the Group of Twenty (G20) in April 2009;

Independent Adviser means an independent financial institution of international repute or an independent adviser with appropriate expertise appointed by the Trustee and the Government at the Government's expense;

Relevant Nominating Body means, in respect of a Reference Rate: (i) the central bank for the currency to which the Reference Rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the Reference Rate; or (ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of: (A) the central bank for the currency to which the Reference Rate relates; (B) any central bank or other supervisory authority which is responsible for supervising the administrator of the Reference Rate; (C) a

group of the aforementioned central banks or other supervisory authorities; or (D) the Financial Stability Board or any part thereof; and

Successor Rate means the rate that the Independent Adviser (in consultation with the Trustee and the Government) or the Government, as applicable, determines is a successor to or replacement of the relevant Reference Rate which is formally recommended by any Relevant Nominating Body.

- (d) **Entitlement to Profit:** Profit shall cease to accumulate in respect of each Certificate on (i) the due date for redemption (excluding a Total Loss Dissolution Date) unless, upon due presentation, payment is improperly withheld or refused, in which event profit shall, subject to the terms of the Transaction Documents, continue to accumulate (both before and after judgment) at the Profit Rate in the manner provided in this Condition 8 to the earlier of: (A) the Relevant Date; or (B) the date on which a Conveyance Deed is executed in accordance with the terms of the Purchase Undertaking or a Sale Deed is executed in accordance with the terms of the Sale and Substitution Undertaking, as the case may be, and (ii) the date on which a Total Loss Event occurs.
- (e) **Margin, Maximum Profit Rates/Minimum Profit Rates and Rounding**
- (i) If any Margin is specified in the applicable Pricing Supplement (either (x) generally or (y) in relation to one or more Return Accumulation Periods), an adjustment shall be made to all Profit Rates, in the case of (x), or the Profit Rates for the specified Return Accumulation Periods, in the case of (y), calculated in accordance with Condition 8(b) by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to paragraph (ii) below.
- (ii) If any Maximum Profit Rate or Minimum Profit Rate is specified in the applicable Pricing Supplement, then any Profit Rate shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes, unit means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.
- (f) **Calculations:** The amount of profit payable per Calculation Amount in respect of any Certificate for any Return Accumulation Period shall be equal to the product of the Profit Rate, the Calculation Amount specified in the applicable Pricing Supplement and the Day Count Fraction for such Return Accumulation Period, unless a Profit Amount (or a formula for its calculation) is specified in the applicable Pricing Supplement as being applicable to such Return Accumulation Period, in which case the amount of profit payable per Calculation Amount in respect of such Certificate for such Return Accumulation Period shall equal such Profit Amount (or be calculated in accordance with such formula). Where any Periodic Distribution Period comprises two or more Return Accumulation Periods, the amount of profit payable per Calculation Amount in

respect of such Periodic Distribution Period shall be the sum of the Profit Amounts payable in respect of each of those Return Accumulation Periods. In respect of any other period for which profit is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which profit is required to be calculated.

- (g) **Determination and Publication of Profit Rates, Profit Amounts and Dissolution Distribution Amounts:** The Calculation Agent shall, as soon as practicable on each Profit Rate Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Profit Amounts for the relevant Return Accumulation Period, calculate the relevant Dissolution Distribution Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Profit Rate and the Profit Amounts for each Return Accumulation Period and the relevant Periodic Distribution Date and, if required to be calculated, the relevant Dissolution Distribution Amount, to be notified to the Delegate, the Trustee, the Government, each of the Paying Agents, the Certificateholders and any other Calculation Agent appointed in respect of the Certificates that is to make a further calculation upon receipt of such information. If the Certificates are listed on a stock exchange and the rules of such exchange or other relevant authority so require, the Calculation Agent shall notify such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Periodic Distribution Period, if determined prior to such time, in the case of notification to such exchange of a Profit Rate and Profit Amount, or (ii) in all other cases, the fourth Business Day after such determination. To the extent that the Calculation Agent is unable to notify a stock exchange or other relevant authority, the Calculation Agent shall notify the Government who shall perform such obligation. Where any Periodic Distribution Date or Profit Period Date is subject to adjustment pursuant to Condition 8(b)(ii), the Profit Amounts and the Periodic Distribution Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Delegate by way of adjustment) without notice in the event of an extension or shortening of the Periodic Distribution Period. If the Certificates become due and payable under Condition 13, the accrued profit and the Profit Rate payable in respect of the Certificates shall nevertheless continue to be calculated as previously in accordance with this Condition 8 but no publication of the Profit Rate or the Profit Amount so calculated need be made unless the Delegate otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of wilful default, bad faith or manifest error) be final and binding upon all parties.
- (h) **Determination or Calculation by the Delegate:** If the Calculation Agent does not at any time for any reason determine or calculate the Profit Rate for a Return Accumulation Period or any Profit Amount or Dissolution Distribution Amount, the Delegate may do so (or may appoint an agent on behalf of the Trustee to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Delegate or, as the case may be, such agent shall apply the foregoing provisions of this Condition 8, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects, it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.
- (i) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

Business Day means:

- (i) a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in London and each Business Centre (other than the TARGET System) specified in the applicable Pricing Supplement;
- (ii) if the TARGET System is specified as a Business Centre in the applicable Pricing Supplement, a day on which the TARGET System is open; and
- (iii) either (A) in the case of a currency other than Euro, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency or (B) in the case of Euro, a day on which the TARGET System is operating (a **TARGET Business Day**).

Day Count Fraction means, in respect of the calculation of an amount of profit on any Certificate for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting a Periodic Distribution Period or a Return Accumulation Period, the **Calculation Period**):

- (i) if **Actual/Actual** or **Actual/Actual – ISDA** is specified in the applicable Pricing Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if **Actual/365 (Fixed)** is specified in the applicable Pricing Supplement, the actual number of days in the Calculation Period divided by 365;
- (iii) if **Actual/365 (Sterling)** is specified in the applicable Pricing Supplement, the actual number of days in the Calculation Period divided by 365 or, in the case of a Periodic Distribution Date falling in a leap year, 366;
- (iv) if **Actual/360** is specified in the applicable Pricing Supplement, the actual number of days in the Calculation Period divided by 360;
- (v) if **30/360, 360/360** or **Bond Basis** is specified in the applicable Pricing Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y₁ is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y₂ is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M₁ is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

M₂ is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D₁ is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

D₂ is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (vi) if **30E/360** or **Eurobond Basis** is specified in the applicable Pricing Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y₁ is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y₂ is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M₁ is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

M₂ is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D₁ is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

D₂ is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30;

- (vii) if **30E/360 (ISDA)** is specified in the applicable Pricing Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y₁ is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y₂ is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M₁ is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

M₂ is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D₁ is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

D₂ is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Scheduled Dissolution Date or (ii) such number would be 31, in which case D₂ will be 30;

(viii) if **Actual/Actual-ICMA** is specified in the applicable Pricing Supplement:

(A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(B) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

Determination Period means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

Determination Date means the date(s) specified as such in the applicable Pricing Supplement or, if none is so specified, the Periodic Distribution Date(s).

(j) **Calculation Agent:** The Trustee shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the applicable Pricing Supplement and for so long as any Certificate is outstanding. Where more than one Calculation Agent is appointed in respect of the Certificates, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such, or if the Calculation Agent fails duly to establish the

Profit Rate for a Return Accumulation Period or to calculate any Profit Amount or any Dissolution Distribution Amount, as the case may be, or to comply with any other requirement, the Trustee shall (with the prior approval of the Delegate) appoint a leading bank or financial institution engaged in the inter-bank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

9. Redemption and Dissolution of the Trust

- (a) **Dissolution on the Scheduled Dissolution Date:** Unless previously redeemed, or purchased and cancelled, in full, as provided below, each Certificate shall be finally redeemed at its Dissolution Distribution Amount and the Trust shall be dissolved by the Trustee on the Scheduled Dissolution Date specified in the applicable Pricing Supplement following the payment of all such amounts in full.
- (b) **Dissolution at the Option of the Government (Optional Dissolution Right):** If the Optional Dissolution Right is specified as applicable in the applicable Pricing Supplement, the Trustee shall, upon receipt of a duly completed Exercise Notice from the Government in accordance with the Sale and Substitution Undertaking, on giving not less than the minimum period nor more than the maximum period of irrevocable notice specified in the applicable Pricing Supplement to the Delegate and the Certificateholders, redeem the Certificates in whole, but not in part, on any Optional Dissolution Date, at their Dissolution Distribution Amount.

All Certificates in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 9(b). Upon payment in full of the Dissolution Distribution Amount to all Certificateholders, the Trustee shall be bound to dissolve the Trust.

- (c) **Dissolution following a Total Loss Event:** The Trustee shall, upon receipt of notice from the Government or otherwise upon becoming aware, of the occurrence of a Total Loss Event, redeem the Certificates, in whole but not in part, by no later than the close of business in London on the 61st day after the occurrence of the Total Loss Event (a **Total Loss Dissolution Date**) at their Dissolution Distribution Amount. Upon payment in full of the Dissolution Distribution Amount to all Certificateholders, the Trustee shall be bound to dissolve the Trust.

In these Conditions, **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 by any third party in respect of the Lease Assets) the repair or remedial work in respect thereof is wholly uneconomical.

Following the occurrence of a Total Loss Event, the Service Agent shall promptly notify the Trustee and the Delegate of the same and the Trustee shall promptly notify Certificateholders (the **Trading Notice**) (a) of the occurrence of a Total Loss Event and (b) from the date of the Trading Notice and until any further notice from the Trustee, in consultation with the Shari'a Adviser, the Certificates should be tradable only in accordance with the Shari'a principles of debt trading.

For the avoidance of doubt, neither the Delegate nor any Agent will have any responsibility for monitoring or ensuring compliance with any such Shari'a principles of debt trading nor shall it be liable to any Certificateholder or any other persons in respect thereof.

- (d) **Dissolution following a Dissolution Event:** Upon the occurrence and continuation of a Dissolution Event, the Certificates may be redeemed at their Dissolution Distribution Amount and the Trustee may be required to dissolve the Trust, in each case subject to and as more particularly described in Condition 13.
- (e) **Purchases:** The Government may at any time purchase Certificates at any price in the open market or otherwise.
- (f) **Cancellation:** Any Certificates purchased by or on behalf of the Government may, at the option of the Government, be surrendered for cancellation by surrendering the certificate representing such Certificates to the Registrar and by the Government delivering to the Trustee a duly completed Cancellation Notice in accordance with the terms of the Trust Deed. Any Certificates so surrendered and all Certificates that are redeemed in accordance with this Condition 9 and/or Condition 13 shall be cancelled forthwith and may not be held, reissued or resold and the obligations of the Trustee in respect of any such Certificates shall be discharged. If the Certificates are cancelled in whole, but not in part, in accordance with this Condition 9(f), the Trustee shall be bound to dissolve the Trust.
- (g) **No other dissolution:** The Trustee shall not be entitled to redeem the Certificates or dissolve the Trust other than as provided in this Condition 9 and Condition 13. Upon payment in full of all amounts due in respect of the Certificates of any Series and the subsequent dissolution of the Trust as provided in this Condition 9 and/or Condition 13 (as the case may be), the Certificates shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

10. Payments

- (a) **Method of Payment:** Payments of the Dissolution Distribution Amount shall be made against presentation and surrender of the relevant Certificate at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided below.

Payments of Periodic Distribution Amounts in respect of each Certificate shall be paid to the person shown on the Register (or, in the case of a Certificate held by two or more persons, to the person whose name appears first in the Register) at the close of business on the fifteenth day before the due date for payment thereof (the **Record Date**).

Payments of Periodic Distribution Amounts and the Dissolution Distribution Amount in respect of each Certificate shall be made in the Specified Currency by transfer to an account in the Specified Currency maintained by the payee with a bank in the principal financial centre for such currency or, in the case of Euro, in a city in which banks have access to the TARGET System, as notified by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date.

All amounts payable to DTC or its nominee as registered holder of a Global Certificate in respect of Certificates denominated in a Specified Currency other than U.S. Dollars shall be paid by transfer by the Principal Paying Agent to an account in the relevant Specified Currency of the Exchange Agent for conversion into and payment in U.S.

Dollars unless the participant in DTC with an interest in the Certificates has elected to receive any part of such payment in that Specified Currency, in the manner specified in the Agency Agreement and in accordance with the rules and procedures for the time being of DTC.

- (b) **Payments subject to Laws:** Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 11; and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (as amended) (the **Code**) or otherwise imposed pursuant to Sections 1471 to 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof or any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Certificateholders in respect of such payments.
- (c) **Appointment of Agents:** The Principal Paying Agent, the Exchange Agent, the Transfer Agent and the Registrar initially appointed by the Trustee. The Principal Paying Agent, the Exchange Agent, the Transfer Agent and the Register act solely as agents of the Trustee and do not assume any obligation or relationship of agency or trust for or with any Certificateholder. The Trustee reserves the right at any time with the prior written approval of the Delegate to vary or terminate the appointment of any Agent and to appoint additional or other Agents, provided that the Trustee shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) a Paying Agent having a specified office in at least one major European city and (vi) such other agents as may be required by any stock exchange on which the Certificates may be listed, in each case as approved by the Delegate.

Notice of any such change or any change of any specified office shall promptly be given by the Trustee to the Certificateholders.

For so long as any of the Global Certificates payable in a Specified Currency other than U.S. Dollars are held through DTC or its nominee, the Trustee shall at all times maintain an Exchange Agent having a specified office in London in addition to the Agents required to be maintained pursuant to Condition 10(c).

- (d) **Payment only on a Payment Business Day:** If any date for payment in respect of any Certificate is not a Payment Business Day, the holder shall not be entitled to payment until the next following Payment Business Day, nor to any profit or other sum in respect of such postponed payment. In this Condition 10(d), **Payment Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the place in which the specified office of the Registrar is located, in such jurisdictions as shall be specified as **Financial Centres** in the applicable Pricing Supplement and:
- (i) (in the case of a payment in a currency other than Euro) where payment is to be made by transfer to an account maintained with a bank in the Specified Currency, on which foreign exchange transactions may be carried on in the Specified Currency in the principal financial centre of the country of such Specified Currency; or
- (ii) (in the case of a payment in Euro) which is a TARGET Business Day.

11. 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, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed, levied, collected, withheld or assessed by or on behalf of the Relevant Jurisdiction, unless such withholding or deduction is required by law. In that event, the Trustee shall pay such additional amounts as shall be necessary in order that the net amounts received by the Certificateholders after such withholding or deduction shall equal the respective amounts which would have been receivable by them in the absence of the withholding or deduction; except that no such additional amounts 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 of which who is liable for such Taxes in respect of such Certificate by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Certificate; or
- (b) presented for payment (where presentation is required) by or on behalf of a holder more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts if it had presented such Certificate for payment on the last day of such period of 30 days assuming, whether or not such is in fact the case, that day to have been a Payment Business Day (in accordance with Condition 10(d)).

Notwithstanding any other provisions of these Conditions, in no event will the Trustee be required to pay any additional amounts in respect of the Certificates for, or on account of, any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, or any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

As used in these Conditions:

Relevant Date means, in respect of any Certificate, the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Certificateholders in accordance with Condition 19 that, upon further presentation of the Certificate being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation; and

Relevant Jurisdiction means Pakistan or any political subdivision or any authority thereof or therein having power to tax.

References in these Conditions to **Periodic Distribution Amounts** and the **Dissolution Distribution Amount** shall be deemed to include any additional amounts that may be payable under this Condition 11 or any undertaking given in addition to or in substitution for it under the Trust Deed.

The Transaction Documents provide that payments thereunder by the Government shall be made without set-off or counterclaim of any kind and without any withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, unless such withholding or deduction is required by law. In that event, the Transaction Documents provide for the payment by the Government of such additional amounts

as will result in the receipt by the Trustee or the Delegate, as applicable, of the net amounts as would have been receivable by it if no such withholding or deduction had been made.

Further, in accordance with the terms of the Master Trust Deed, the Government has unconditionally and irrevocably undertaken to (irrespective of the payment of any fee), as a continuing obligation, in the event that the Trustee fails to comply with any obligation to pay additional amounts pursuant to this Condition 11, pay to or to the order of the Delegate (for the benefit of the Certificateholders) such net amounts as are necessary so that the amount receivable by the Delegate (after any such withholding or deduction) equals any and all additional amounts, required to be paid by it in respect of the Certificates pursuant to this Condition 11.

12. Prescription

Claims against the Trustee for payment in respect of the Certificates shall be prescribed and become void unless made within ten years (in the case of the Dissolution Distribution Amount), or five years (in the case of Periodic Distribution Amounts) of the appropriate Relevant Date in respect of them.

13. Dissolution Events

- (a) **Dissolution Event:** If a Dissolution Event occurs and is continuing:
- (i) the Delegate, upon receiving written notice thereof under the Trust Deed or otherwise upon becoming aware of a Dissolution Event, shall (subject to it being indemnified and/or secured and/or pre-funded to its satisfaction) promptly give notice of the occurrence of the Dissolution Event to the Certificateholders with a request to the Certificateholders to indicate to the Trustee and the Delegate in writing or by Extraordinary Resolution if they wish the Certificates to be redeemed (in whole but not in part) and the Trust to be dissolved; and
 - (ii) the Delegate shall if so requested in writing by the holders of at least 25 per cent. of the aggregate face amount of the Series of Certificates then outstanding or if so directed by an Extraordinary Resolution (subject, in each case, to being indemnified and/or secured and/or pre-funded to its satisfaction), give notice (a **Dissolution Notice**) to the Trustee, the Government and the Certificateholders that the Certificates are immediately due and payable at the Dissolution Distribution Amount, whereupon they shall become so due and payable. A Dissolution Notice may be given pursuant to this Condition 13(a)(ii) whether or not notice has been given to Certificateholders as provided in Condition 13(a)(i).
 - (iii) Upon receipt of such Dissolution Notice, the Trustee (or the Delegate in the name of the Trustee) shall deliver an exercise notice to the Government under the Purchase Undertaking. The Trustee (or the Delegate in the name of the Trustee) shall use the proceeds thereof and the aggregate amounts of the Deferred Sale Price then outstanding to redeem the Certificates at the Dissolution Distribution Amount on the date specified in the relevant Dissolution Notice (the relevant **Dissolution Event Redemption Date**) and the Trust shall be dissolved on the day after the last outstanding Certificate has been so redeemed in full.

- (iv) Upon payment in full of such amounts and dissolution of the Trust as aforesaid, the Certificates shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.
- (b) **Enforcement and Exercise of Rights:** Upon the occurrence and continuation of a Dissolution Event, to the extent that any amount payable in respect of the Certificates of the relevant Series has not been paid in full (notwithstanding the provisions of Condition 13(a)), the Trustee or the Delegate (in each case subject to it being indemnified and/or secured and/or pre-funded to its satisfaction) may (acting for the benefit of the Certificateholders) take one or more of the following steps:
 - (i) enforce the provisions of the Transaction Documents against the Government; and/or
 - (ii) take such other actions, steps or proceedings as the Trustee or the Delegate may consider necessary to recover amounts due to the Certificateholders.

14. Realisation of Trust Assets

- (a) Neither the Trustee nor the Delegate shall be bound in any circumstances to take any action, step or proceeding to enforce or to realise the relevant Trust Assets or take any action or steps or proceedings against the Government or (in the case of the Delegate) against the Trustee under any Transaction Document to which either of the Trustee or the Government is a party unless directed or requested to do so: (i) by an Extraordinary Resolution; or (ii) in writing by the holders of at least 25 per cent. of the aggregate face amount of the Series of Certificates then outstanding and in either case then only if it shall be indemnified and/or secured and/or pre-funded to its satisfaction against all Liabilities to which it may thereby render itself liable or which it may incur by so doing.
- (b) No Certificateholder shall be entitled to proceed directly against the Trustee or the Government unless the Delegate or the Trustee, as the case may be, having become bound so to proceed (i) fails to do so within a reasonable period or (ii) is unable by reason of an order of a court having competent authority to do so, and such failure or inability is continuing. Under no circumstances shall the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the relevant Trust Assets (other than as expressly contemplated in the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Trustee and the Government shall be to enforce the Trustee's and the Government's respective obligations under the Transaction Documents to which they are a party.
- (c) Conditions 14(a) and 14(b) are subject to this Condition 14(c). After enforcing or realising the relevant Trust Assets in respect of the Certificates of the relevant Series and distributing the net proceeds of the relevant Trust Assets in respect of the Certificates of the relevant Series in accordance with Condition 6(b), the obligations of the Trustee in respect of the Certificates of the relevant Series shall be satisfied and no Certificateholder may take any further steps against the Trustee (or any steps against the Delegate or the Agents or any other person (including the Government to the extent that it fulfils all of its obligations under the Transaction Documents)) to recover any further sums in respect of the Certificates of the relevant Series and the right to receive from the Trustee any such sums remaining unpaid shall be extinguished. In particular, no Certificateholder shall be entitled in respect thereof to petition or to take any other steps for the winding-up of the Trustee.

15. Meetings of Certificateholders, Modification and Waiver

(a) Convening Meetings of Certificateholders; Written Resolutions; Conduct of Meetings of Certificateholders

- (i) The Trustee, the Government or the Delegate may convene a meeting (including by way of conference call or by use of a videoconference platform) of the Certificateholders at any time in respect of the Certificates in accordance with the Trust Deed. 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 (in each case exclusive of the day on which the notice is given and the day on which the meeting is to be held).
- (ii) The Delegate will convene a meeting of Certificateholders (including by way of conference call or by use of a videoconference platform) if the holders of at least 10 per cent. in aggregate face amount of the outstanding Certificates (as described in Condition 15(a)(i)) 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 and will notify the Certificateholders within ten 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 (in each case exclusive of the day on which the notice is given and the day on which the meeting is to be held).
- (iii) The Delegate will set the procedures governing the conduct of any meeting in accordance with the Trust Deed. If the Trust Deed 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.
- (iv) The notice convening any meeting will specify, *inter alia*;
 - (A) the date, time and location of the meeting;
 - (B) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;
 - (C) the record date for the meeting, which shall be no more than five Business Days before the date of the meeting;
 - (D) 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;

- (E) 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;
 - (F) whether Condition 15(b), or Condition 15(c), or Condition 15(d) shall apply and, if relevant, in relation to which other series of securities it applies;
 - (G) if the proposed modification or action relates to two or more series of securities issued by the Trustee 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;
 - (H) such information that is required to be provided by the Trustee or the Government, as the case may be, in accordance with Condition 15(f);
 - (I) 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 15(g); and
 - (J) 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.
- (v) In addition, the Trust Deed contains provisions relating to Written Resolutions. All information to be provided pursuant to Condition 15(a)(iv) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions and Electronic Consents.
 - (vi) 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.
 - (vii) 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.
 - (viii) 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.
 - (ix) Any reference to **securities** means any trust certificates (including the Certificates), bonds, debentures or other securities (which for these purposes shall be deemed to include any *sukuk* or other trust certificates representing the credit of the Government) issued directly or indirectly 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.

- (x) **Securities Capable of Aggregation** means those securities which include or incorporate by reference this Condition 15 and Condition 16 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.

- (b) **Modification of this Series of Certificates only**
 - (i) Any modification of any provision of, or any action in respect of, these Conditions, the Certificates 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.
 - (ii) 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 15(a) by a majority of:
 - (A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate face amount of the outstanding Certificates; or
 - (B) 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.
 - (iii) A **Single Series Written Resolution** means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:
 - (A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate face amount of the outstanding Certificates; or
 - (B) 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.

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.
 - (iv) 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.

- (c) **Multiple Series Aggregation – Single limb voting**
 - (i) 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.
 - (ii) 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 15(a), 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).

- (iii) 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 documentation applicable to each relevant series of securities) 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 Capable of Aggregation.
 - (iv) 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.
 - (v) The **Uniformly Applicable** condition will be satisfied if:
 - (A) 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
 - (B) 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).
 - (vi) Any modification or action proposed under Condition 15(c)(i) 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 15(c) may be used for different groups of two or more series of Securities Capable of Aggregation simultaneously.
- (d) **Multiple Series Aggregation – Two limb voting**
- (i) 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.

(ii) 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 15(a), as supplemented if necessary, which is passed by a majority of:

(A) at least 66.67 per cent. of the aggregate face amount of the outstanding securities of affected series of Securities Capable of Aggregation (taken in aggregate); and

(B) 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).

(iii) 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 documentation applicable to each relevant series of securities) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:

(A) at least 66.67 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

(B) 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).

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.

(iv) 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.

(v) Any modification or action proposed under Condition 15(d)(iv) 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 15(d) may be used for different groups of two or more series of Securities Capable of Aggregation simultaneously.

(e) **Reserved Matters**

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

- (i) 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;
- (ii) 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;
- (iii) 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;
- (iv) 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";
- (v) to change the definition of "securities" or "Securities Capable of Aggregation";
- (vi) to change the definition of "Uniformly Applicable";
- (vii) to change the definition of "outstanding" or to modify the provisions of Condition 15(a);
- (viii) to change the legal ranking of the Certificates;
- (ix) to amend the obligation of the Trustee or the Government to pay additional amounts under Condition 11;
- (x) 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;
- (xi) 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 or the Government's waiver of immunity, in respect of actions or proceedings brought by any Certificateholder, as set out in Condition 22;
- (xii) 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;

- (xiii) 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;
- (xiv) to amend any of the Trustee's or the Government's covenants in the Trust Deed and (in the case of the Government only) in the Lease Agreement and/or the Purchase Undertaking or any of the Government's covenants to make a payment under any other Transaction Document; or
- (xv) 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 Trust Deed 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 these Conditions as so modified being less favourable to the Certificateholders which are subject to the Conditions as so modified than:
 - (A) 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
 - (B) 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.

(f) **Information**

Prior to or on the date that the Trustee or the Government proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 15(b), Condition 15(c) or Condition 15(d), the Trustee or the Government, as the case may be, shall publish in accordance with Condition 16 and provide the Delegate with the following information:

- (i) 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 or the Government's, as the case may be, existing debts and a description of its broad policy reform programme and provisional macroeconomic outlook;
- (ii) 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;

- (iii) 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

- (iv) 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 15(a)(iv)(G).

(g) **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 15(c) and Condition 15(d), the Trustee or the Government, as the case may be, may appoint a Calculation Agent. The Trustee or the Government, as the case may be, 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.

(h) **Manifest error, etc.**

The Certificates, these Conditions and the provisions of the Trust Deed or any other Transaction Document may be amended without the consent of the Certificateholders to correct a manifest error. In addition, the parties to the Trust Deed 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, such modification is of a formal, minor or technical nature or it is not materially prejudicial to the interests of the Certificateholders.

(i) **Certificates controlled by the Government**

For the purposes of (i) determining the right to attend and vote at any meeting of Certificateholders, the right to give an Electronic Consent or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution, (ii) this Condition 15 and (iii) Condition 13, any Certificates which are for the time being held by or on behalf of the Government or by or on behalf of any person which is owned or controlled directly or indirectly by the Government or by any public sector instrumentality of the Government shall be disregarded and be deemed not to remain outstanding, where:

- (i) **public sector instrumentality** means the State Bank of Pakistan or any department, ministry or agency of the government of the Government or any corporation, trust, financial institution or other entity owned or controlled by the government of the Government or any of the foregoing; and
- (ii) **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 Electronic Consent or Written Resolution, the Government shall provide to the Delegate a copy of the certificate prepared pursuant to Condition 16(d) which includes information on the total number of Certificates which are for the time being held by or on behalf of the Government or by or on behalf of any person which is owned or controlled directly or indirectly by the Government or by any public sector instrumentality of the Government 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.

(j) **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 16(h).

(k) **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 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 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.

(l) **Written Resolutions and Electronic Consents**

For so long as any Certificates are in the form of a Global Certificate held on behalf of one or more of Euroclear, Clearstream, Luxembourg, DTC or any other clearing system (the **relevant clearing system(s)**), then:

- (i) Approval of a resolution proposed by the Trustee or the Government given by way of electronic consent communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures (i) by or on behalf of all Certificateholders who for the time being are entitled to receive notice of a meeting of Certificateholders or (ii) (where such holders have been given at least 21 days' notice of such resolution) by or on behalf of:

- (A) in respect of a proposal that falls within paragraphs (ii) and (iii) of Condition 15(b), the persons holding at least 75 per cent. of the aggregate face amount of the outstanding Certificates in the case of a Reserved Matter or more than 50 per cent. of the aggregate face amount of the outstanding Certificates, in the case of a matter other than a Reserved Matter;
- (B) in respect of a proposal that falls within paragraphs (ii) and (iii) of Condition 15(c), the persons holding 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) in respect of a proposal that falls within paragraphs (ii) and (iii) of Condition 15(d), (x) the persons holding at least 66.67 per cent. of the aggregate face amount of the outstanding securities of all affected series of Securities Capable of Aggregation (taken in aggregate); and (y) the persons holding 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),

(in the case of (A), (B) and (C), each an **Electronic Consent**) shall, for all purposes (including Reserved Matters) take effect as (i) a Single Series Extraordinary Resolution (in the case of (A) above), (ii) a Multiple Series Single Limb Extraordinary Resolution (in the case of (B) above) or (iii) a Multiple Series Two Limb Extraordinary Resolution (in the case of (C) above), as applicable.

The notice given to Certificateholders shall specify, in sufficient detail to enable Certificateholders to give their consents in relation to the proposed resolution, the method by which their consents may be given (including, where applicable, blocking of their accounts in the relevant clearing system(s)) and the time and date (the **Relevant Date**) by which they must be received in order for such consents to be validly given, in each case subject to and in accordance with the operating rules and procedures of the relevant clearing system(s).

If, on the Relevant Date on which the consents in respect of an Electronic Consent are first counted, such consents do not represent the required proportion for approval, the resolution shall, if the party proposing such resolution (the **Proposer**) so determines, be deemed to be defeated. Alternatively, the Proposer may give a further notice to Certificateholders that the resolution will be proposed again on such date and for such period as shall be agreed with the Trustee and the Government (unless the Trustee or the Government is the Proposer). Such notice must inform Certificateholders that insufficient consents were received in relation to the original resolution and the information specified in the previous paragraph. For the purpose of such further notice, references to Relevant Date shall be construed accordingly.

An Electronic Consent may only be used in relation to a resolution proposed by the Trustee or the Government which is not then the subject of a meeting that has been validly convened above, unless that meeting is or shall be cancelled or dissolved.

- (ii) Where Electronic Consent has not been sought, for the purposes of determining whether a Written Resolution has been validly passed, the Trustee shall be

entitled to rely on consent or instructions given in writing directly to the Government (a) by accountholders in the relevant clearing system(s) with entitlements to any Global Certificate and/or (b) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, the relevant clearing system(s) and, in the case of (b) above, the relevant clearing system(s) and the accountholder identified by the relevant clearing system(s). Any such certificate or other document (i) shall be conclusive and binding for all purposes and (ii) may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular face amount of the Certificates is clearly identified together with the amount of such holding. The Trustee shall not be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

All information to be provided pursuant to paragraph (iv) of Condition 15(a) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions and Electronic Consents.

A Written Resolution and/or Electronic Consent (i) shall take effect as an Extraordinary Resolution and (ii) will be binding on all Certificateholders, whether or not they participated in such Written Resolution and/or Electronic Consent, even if the relevant consent or instruction proves to be defective.

16. Aggregation Agent; Aggregation Procedures

(a) 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 Trust Deed or any other Transaction Document in respect of the Certificates and in respect of the terms and conditions or documentation in respect of each other affected series of securities. The Aggregation Agent shall be independent of the Trustee and the Government.

(b) 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.

(c) **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.

(d) **Electronic Consents**

If approval of a resolution 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, is proposed to be given by way of Electronic Consent, the Aggregation Agent will, as soon as reasonably practicable after the relevant Electronic Consent has been given, 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 consented to the resolution by way of Electronic Consent such that the resolution is approved. If so, the Aggregation Agent will determine that the resolution has been duly approved.

(e) **Certificate**

For the purposes of Condition 16(b) and Condition 16(c), 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 16(b), and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution.

The certificate shall:

- (i) 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
- (ii) 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 15(a) 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.

(f) **Notification**

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 16 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 to the Certificateholders.

(g) **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 16 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.

(h) **Manner of publication**

The Trustee and the Government will publish all notices and other matters required to be published pursuant to the Trust Deed including any matters required to be published pursuant to Condition 13, Condition 15 and this Condition 16:

- (i) through the systems of The Depository Trust Company, Clearstream Banking S.A. and Euroclear Bank SA/NV and/or any other international or domestic clearing system(s) through which the Certificates are for the time being cleared;
- (ii) in such other places and in such other manner as may be required by applicable law or regulation; and
- (iii) in such other places and in such other manner as may be customary.

17. Delegate

- (a) **Delegation of Powers:** The Trustee will in the Trust Deed irrevocably and unconditionally appoint the Delegate to be its attorney and in its name, on its behalf and as its act and deeds, to execute, deliver and perfect all documents, and to exercise all of the present and future powers (including the power to sub-delegate), rights, authorities (including, but not limited to, the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the Trust Deed, that the Delegate may consider to be necessary or desirable in order to, upon the occurrence of a Dissolution Event or Potential Dissolution Event, and subject to its being indemnified and/or secured and/or pre-funded to its satisfaction, exercise all of the powers, rights, authorities and discretions of the Trustee under the Transaction Documents and make such distributions from the relevant Trust Assets as the Trustee is bound to make in accordance with the Trust Deed (together, the **Delegation of the Relevant Powers**), provided that: (i) no obligations, duties, liabilities or covenants of the Trustee pursuant to the Trust Deed or any other Transaction Document shall be imposed on the Delegate by virtue of the Delegation; (ii) in no circumstances will such Delegation of the Relevant Powers result in the Delegate holding on trust or managing the relevant Trust Assets; and (iii) such Delegation of the Relevant Powers shall not include any duty, power, trust, right, authority or discretion to dissolve any of the trusts

constituted by the Trust Deed following the occurrence of a Dissolution Event or Potential Dissolution Event or to determine the remuneration of the Delegate. The Trustee shall ratify and confirm all things done and all documents executed by the Delegate in the exercise of all or any of the Relevant Powers.

In addition to the Delegation of the Relevant Powers under the Trust Deed, the Delegate also has certain powers, rights, authorities and discretions which are vested solely in it from the date of the Master Trust Deed.

The appointment of a 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.

- (b) **Indemnification:** The Trust Deed contains provisions for the indemnification of each of the Delegate and the Trustee 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 pre-funded to its satisfaction. The Trust Deed provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, each of the Trustee and the Delegate shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst-case scenario and (ii) to require that any indemnity or security given to it by the Certificateholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.
- (c) **No Liability:** The Delegate makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of the Government or the Trustee under the Transaction Documents to which it is a party and shall not under any circumstances have any liability or be obliged to account to Certificateholders in respect of any payments which should have been paid by the Government or the Trustee but are not so paid and shall not in any circumstances have any liability arising from the relevant Trust Assets other than as expressly provided in these Conditions or in the Trust Deed.
- (d) **Reliance on Certificates, Reports and/or Information:** The Delegate and the Trustee may rely on any certificate, report or information of the auditors or insolvency officials (as applicable) of the Trustee or the Government (as applicable) or any other expert or other person called for by or provided to the Delegate or the Trustee (whether or not addressed to the Delegate or Trustee) in accordance with or for the purposes of the Trust Deed or the other Transaction Documents and such certificate, report or information may be relied upon by the Delegate and the Trustee (without liability to any person) as sufficient evidence of the facts stated therein, notwithstanding that such certificate or report and/or any engagement letter or other document entered into by the Delegate or the Trustee in connection therewith contains a monetary or other limit on the liability of the auditors or insolvency officials of the Trustee or the Government (as applicable) or such other expert or other person in respect thereof and notwithstanding that the scope and/or basis of such certificate, report or information may be limited by an engagement or similar letter or by the terms of the certificate, report or information itself and the Delegate or the Trustee shall not be bound in any such case to call for further evidence or be responsible for any liability or inconvenience that may be occasioned by their failure to do so.

- (e) **Proper performance of duties:** Nothing shall, in any case in which the Trustee or the Delegate has failed to show the degree of care and diligence required of it as trustee or delegate (having regard to the provisions of these presents conferring on the Trustee or the Delegate (as the case may be)) respectively, relieve or indemnify the Trustee or the Delegate from or indemnify either of them against any liability which by virtue of any rule of law would otherwise attach to it in respect of any negligence, wilful default or actual fraud of which either of them may be guilty in relation to their duties under the Conditions and the Trust Deed.
- (f) **Notice of Events:** Neither the Delegate nor the Trustee shall be responsible for monitoring or ascertaining whether or not a Dissolution Event or Potential Dissolution Event has occurred or exists or is continuing and, unless and until they shall have actual knowledge or shall have received express written notice to the contrary, they will be entitled to assume that no such event or circumstance exists or has occurred or is continuing (without any liability to Certificateholders or any other person for so doing).
- (g) **Delegate Contracting with the Trustee and the Government:** The Trust Deed contains provisions pursuant to which directors or officers of a corporation acting as the Delegate under the Trust Deed may acquire, hold or dispose of any Certificates or other security (or any interest therein) of the Trustee or any other person, may enter into or be interested in any contract or transaction with any such person and may act on, or as depositary or agent for, any committee or body of holders of any securities of any such person, in each such case with the same rights as they would have had if the Delegate were not acting as Delegate and need not account for any profit made thereby or in connection therewith.

18. Replacement of Certificates

If a Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Registrar or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Trustee for the purpose and notice of whose designation is given to Certificateholders, in each case on payment by the claimant of the costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Trustee may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

19. Notices

Notices to the holders of Certificates shall be mailed to them at their respective addresses in the Register.

The Trustee shall also ensure that notices are duly given in a manner which complies with the rules and regulations of any listing authority, stock exchange and/or quotation system on which the Certificates are for the time being listed or by which they have been admitted to trading including publication on the website of the relevant authority, relevant stock exchange and/or relevant quotation system if required by those rules or regulations. Any notices shall be deemed to have been given on the fourth day (being a day other than a Saturday or a Sunday) after being so mailed (or on the date of publication, or, if so published more than once or on different dates, on the date of the first publication).

So long as the Certificates are represented by a Global Certificate and such Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg and/or DTC or any other clearing system, notices to the holders of the Certificates of that Series may be given by delivery of the

relevant notice to that clearing system for communication by it to entitled accountholders in substitution for mailing as required by Condition 19. Any such notice shall be deemed to have been given to the holders of the Certificates on the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or DTC and/or such other relevant clearing system.

20. Further Issues

In respect of any Series, the Trustee shall be at liberty from time to time without the consent of the Certificateholders to create and issue additional Certificates having the same terms and conditions as the outstanding Certificates of such Series or terms and conditions which are the same in all respects save for the date and amount of the first payment of the Periodic Distribution Amount and the date from which Periodic Distribution Amounts start to accrue and so that the same shall be consolidated and form a single Series with the outstanding Certificates of such Series. Any additional Certificates which are to form a single Series with the outstanding Certificates previously constituted by the Trust Deed shall be constituted by a deed supplemental to the Trust Deed. References in these Conditions to the Certificates include (unless the context requires otherwise) any other certificates issued pursuant to this Condition and forming a single Series with the Certificates.

21. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Certificates under the Contracts (Rights of Third Parties) Act 1999 but this does not affect any right or remedy of any person which exists or is available apart from that Act.

22. Governing Law and Dispute Resolution

The Trust Deed (including these Conditions) and the Certificates and any non-contractual obligations arising out of or in connection with them are, and shall be governed by, and construed in accordance with, English law.

- (a) The Trustee irrevocably submits for the benefit of the Delegate for and on behalf of the Certificateholders to the exclusive 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 its existence, validity, interpretation, performance, breach or termination or the consequences of its nullity and any dispute relating to any non-contractual obligations arising out of or in connection with them) (a **Related Proceeding**). The Trustee 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 Trustee 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 Trustee is or may be subject (the **Other Courts**), by a suit upon such judgment or appropriate enforcement proceedings in Pakistan.
- (b) The Trustee 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 Trustee). If for any reason such process agent ceases to be able to act as such or no longer has an address in England, the Trustee irrevocably

agrees to appoint a substitute process agent and notify the Delegate of such appointment. Nothing in these Conditions shall affect the right to serve process in any other manner permitted by law.

- (c) 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 set-off, 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 has agreed in the Trust Deed not to claim and has irrevocably waived 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 Delegate to enforce a Related Judgment. The waiver of immunities referred to herein constitutes only a limited and specific waiver for purposes of the Trust Deed and under no circumstances shall it be interpreted as a general waiver by the Government or a waiver with respect to proceedings unrelated to the Trust Deed. 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).
- (d) Each of the Trustee, the Government and the Delegate has irrevocably agreed in the Trust Deed that no interest will be payable or receivable under or in connection with the Trust Deed or any other Transaction Document and if any Related Proceedings are brought by or on behalf of a party under the Trust Deed and in respect of the Certificates it will:
- (i) not claim any judgment interest under, or in connection with, such Related Proceedings; and
 - (ii) 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 Related Proceedings.

For the avoidance of doubt, nothing in this Condition 22(d) shall be construed as a waiver of rights in respect of any Rental, Required Amount, Exercise Price, Full Reinstatement Value, Loss Shortfall Amount, Periodic Distribution Amount, Dissolution Distribution Amount or any other amounts payable by the Trustee (in any capacity) or the Government (in any capacity) pursuant to the Transaction Documents and/or the Conditions, howsoever such amounts may be described or recharacterised by any court.

FORM OF PRICING SUPPLEMENT

The form of Pricing Supplement that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

Pricing Supplement

[MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Certificates has led to the conclusion that: (i) the target market for the Certificates is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, **MiFID II**); and (ii) all channels for distribution of the Certificates to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Certificates (a **distributor**) should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Certificates (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[UK MiFIR product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Certificates has led to the conclusion that: (i) the target market for the Certificates is eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (**COBS**) and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (**UK MiFIR**), only and (ii) all channels for distribution of the Certificates to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Certificates (a **distributor**) should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the **UK MiFIR Product Governance Rules**) is responsible for undertaking its own target market assessment in respect of the Certificates (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore (the SFA) - [Notice to be included if classification of the Certificates is not "prescribed capital markets products", pursuant to Section 309B of the SFA.]]

[Date]

THE PAKISTAN GLOBAL SUKUK PROGRAMME COMPANY LIMITED

Legal Entity Identifier (LEI): 213800X5OY6CVYNY1M70

Issue of [Aggregate Face Amount of Tranche] [Title of Certificates] [to be consolidated and form a single series with the existing [Aggregate Face Amount of Tranche] [Title of Certificates] issued on [•] (the *Original Certificates*)]¹

under the Trust Certificate Issuance Programme

¹ Include only for an issue of further Certificates in accordance with Condition 20.

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Certificates (the **Conditions**) set forth in the Offering Circular dated 18 January 2022 [and the supplement[s] to it dated [•] [and [•]]] (the **Offering Circular**). This document constitutes the Pricing Supplement of the Certificates described herein and must be read in conjunction with the Offering Circular in order to obtain all the relevant information. Copies of the Offering Circular and this Pricing Supplement are available for inspection and/or collection (including by way of email distribution) during normal business hours at the specified office of the Principal Paying Agent.

- | | | |
|----|---|--|
| 1. | (a) Trustee: | The Pakistan Global Sukuk Programme Company Limited |
| | (b) Government: | The President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan |
| 2. | Series Number: | [•] |
| | (a) Tranche Number: | [•] |
| | (b) Date on which the Certificates will be consolidated and form a single Series: | [The Certificates will be consolidated and form a single Series with [<i>identify earlier Tranche(s)</i>] on [<i>insert date/ the Issue Date</i>]]
[Not Applicable] |
| 3. | Specified Currency: | [•] |
| 4. | Aggregate Face Amount: | [•] |
| | (a) Series: | [•] |
| | (b) Tranche: | [•] |
| 5. | Issue Price: | [•] per cent. of the Aggregate Face Amount [plus [<i>Specified Currency</i>] [•] in respect of [•] days of accrued Periodic Distribution Amounts from (and including) [<i>the issue date of the Original Certificates</i>] to (but excluding) the Issue Date] ² |
| 6. | (a) Specified Denominations: | [•] |
| | (b) Calculation Amount: | [•] |
| 7. | (a) Issue Date: | [•] |
| | (b) Profit Commencement Date: | [[•]/Issue Date] |
| 8. | Scheduled Dissolution Date: | [•] |

² Include only for an issue of further Certificates in accordance with Condition 20.

9. Profit Basis: [Fixed Rate Certificates/Floating Rate Certificates] (further particulars specified at paragraph [15][16] below)
10. Dissolution Basis: Dissolution at par
11. Change of Profit Basis: [[Specify the date when any fixed to floating rate change occurs or cross refer to paragraphs 15 and 16 below and identify there]/Not Applicable]
12. Call Rights: [Not Applicable]
[Optional Dissolution Right]
13. Status: Unsubordinated
14. Date of Trustee's board approval and date of Government's approval(s) for issuance of Certificates: [•] and [•], respectively

Provisions relating to profit payable

15. Fixed Rate Periodic Distribution Provisions: [Applicable]/[Not Applicable]
- (a) Profit Rate(s): [•] per cent. *per annum* payable [annually/semi-annually/quarterly/monthly/[•]] in arrear on each Periodic Distribution Date
- (b) Periodic Distribution Date(s): [[•] in each year up to and including the Scheduled Dissolution Date, commencing on [•]/[•]]
- (c) Fixed Amount(s): [•] per Calculation Amount
- (d) Broken Amount(s): [[•] per Calculation Amount, payable on the Periodic Distribution Date falling [in/on] [•]/Not Applicable]
- (e) Day Count Fraction: [Actual/Actual]
[Actual/Actual – ISDA]
[Actual/365 (Fixed)]
[Actual/365 (Sterling)]
[Actual/360]
[30/360]
[360/360]
[Bond Basis]
[30E/360]
[Eurobond Basis]
[30E/360 (ISDA)]
[Actual/Actual – ICMA]
- (f) Determination Date(s): [[•] in each year/Not Applicable]

16. Floating Periodic Distribution Provisions: [Applicable]/[Not Applicable]
- (a) Specified Periodic Distribution Dates: [•] in each year, commencing on [•][, subject to adjustment in accordance with the Business Day Convention set out in (d) below/, not subject to adjustment, as the Business Day Convention in (d) below is specified to be Not Applicable]
- (b) Periodic Distribution Period: [Not Applicable]/[•]
- (c) Profit Period Date: [Not Applicable]/[•]
- (d) Business Day Convention: [Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention] [Not Applicable]
- (e) Business Centre(s): [•] [Not Applicable]
- (f) Manner in which the Profit Rate and the Periodic Distribution Amount are to be determined: [Screen Rate Determination/ISDA Determination]
- (g) Party responsible for calculating the Profit Rate and the Periodic Distribution Amount (if not the Principal Paying Agent): [•] (the **Calculation Agent**)
- (h) Screen Rate Determination: [Applicable]/[Not Applicable]
- (i) Reference Rate: [•] month EURIBOR
- (ii) Profit Rate Determination Date(s): [•]
- (iii) Relevant Screen Page: [•]
- (iv) Relevant Time: [•]
- (v) Relevant Financial Centre: [•]
- (i) ISDA Determination: [Applicable]/[Not Applicable]
- (i) Floating Rate Option: [•]
- (ii) Designated Maturity: [•]
- (iii) Reset Date: [•]
- (iv) ISDA Definitions: [•]

- (j) Margin(s): [+/-][•] per cent. per annum
- (k) Linear Interpolation: [Not Applicable/Applicable – the Profit Rate for the [long/short] [first/last] Periodic Distribution Period shall be calculated using Linear Interpolation (*specify for each short or long periodic distribution period*)]
- (l) Maximum Profit Rate: [•] per cent. per annum
- (m) Minimum Profit Rate: [•] per cent. per annum
- (n) Day Count Fraction: [Actual/Actual]
[Actual/Actual – ISDA]
[Actual/365 (Fixed)]
[Actual/365 (Sterling)]
[Actual/360]
[30/360]
[360/360]
[Bond Basis]
[30E/360]
[Eurobond Basis]
[30E/360 (ISDA)]
[Actual/Actual – ICMA]

Provisions relating to dissolution

17. Optional Dissolution Right: [Applicable]/[Not Applicable]
- (a) Dissolution Distribution Amount: [As per Condition 1]/[•]
- (b) Optional Dissolution Date(s): [•]
- (c) Notice period: Minimum period: [•] days
Maximum period: [•] days

(N.B. When setting notice periods, the Trustee is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of five clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Trustee and the Agent.)

18. Dissolution Distribution Amount following redemption on the Scheduled Dissolution Date or following the occurrence of a Dissolution Event: [As per Condition 1]/[•]

General provisions applicable to the Certificates

19. Form of Certificates: [Regulation S Global Certificate(s) registered in the name of a nominee for [The Depository Trust Company/a common depository for Euroclear Bank SA/NV and Clearstream Banking S.A.]]
- [Rule 144A Global Certificate(s) registered in the name of a nominee for [The Depository Trust Company/a common depository for Euroclear Bank SA/NV and Clearstream Banking S.A.]]
20. Financial Centre(s) relating to payment (Condition 10(d)): [Not Applicable]/[•]

Provisions in respect of the Trust Assets

21. Trust Assets: Condition 6(a) applies
22. (a) Details of Transaction Account: The Pakistan Global Sukuk Programme Company Limited
- Transaction Account No: [•] with [•] for Series No: [•]
- (b) Supplemental Trust Deed: Supplemental Trust Deed dated [•] between the Trustee, the Government and the Delegate
- (c) Supplemental Purchase Agreement: Supplemental Purchase Agreement dated [•] between the Trustee and the National Highway Authority
- (d) Supplemental Lease Agreement: Supplemental Lease Agreement dated [•] between the Trustee, the Government and the Delegate
- (e) Declaration of Commingling of Assets:³ [Declaration of Commingling of Assets dated [•] executed by the Trustee]/[Not Applicable]

THIRD PARTY INFORMATION

[[•] has been extracted from [•]. Each of the Trustee and the Government confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [specify source] as facts have been omitted which would render the reproduced information inaccurate or misleading.]

³

Include only for an issue of further Certificates in accordance with Condition 20.

Signed on behalf of

**THE PAKISTAN GLOBAL SUKUK
PROGRAMME COMPANY LIMITED**

By:

Name:

Witness Signature

1.

Name:

Address:

2.

Name:

Address:

Signed on behalf of

**THE PRESIDENT OF THE ISLAMIC
REPUBLIC OF PAKISTAN FOR AND ON
BEHALF OF THE ISLAMIC REPUBLIC OF
PAKISTAN**

By:

Name:

Witness Signature

1.

Name:

Address:

2.

Name:

Address:

PART B – OTHER INFORMATION

1. Listing and Admission to Trading

- (a) Listing and Admission to trading: [Application [has been][is expected to be] made by the Trustee (or on its behalf) for the Certificates to be admitted to trading on the London Stock Exchange plc's International Securities Market with effect from [•].][None.]
- (b) Estimate of total expenses related to admission to trading: [•]

2. Ratings

Ratings: [The Certificates to be issued [[have been]/[are expected to be]] rated]/[The following ratings reflect ratings assigned to Certificates of this type issued under the Programme generally]:

[Fitch: [•]]

[Moody's: [•]]

Each of [[Fitch] and [Moody's]] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**).

3. Interests of Natural and Legal Persons involved in the Issue

[Save for any fees payable to the [Managers/Dealer], so far as each of the Trustee and the Government is aware, no person involved in the issue of the Certificates has an interest material to the offer.] [The [Managers/Dealer] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Trustee or the Government and their affiliates in the ordinary course of business].

4. Indication of profit or return (Fixed Rate Certificates only): [•] per cent. per annum

The indication of profit or return is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future profit or return.

5. Use of Proceeds

- (a) Use of proceeds: [See "*Use of Proceeds*" in the Offering Circular]/[•]
- (b) Estimated amount of net proceeds: [•]

6. Operational Information

- (a) ISIN: [•]/[Until the Certificates are consolidated, become fungible with and form a single series with the Original Certificates, the Certificates will have the temporary ISIN [•]. After that, the Certificates will have the same ISIN as the Original Certificates, which is [•].]
- (b) Common Code: [•]/[Until the Certificates are consolidated, become fungible with and form a single series with the Original Certificates, the Certificates will have the temporary Common Code [•]. After that, the Certificates will have the same Common Code as the Original Certificates, which is [•].]
- (c) CUSIP [•]
- (d) CINS [•]
- (e) CFI: [[See/[*include code*], as updated, as set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN]/[Not Applicable]/[Not Available]]
- (f) FISN: [[See/[*include code*], as updated, as set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable]/[Not Available]]
- (g) Any clearing system(s) other than The Depository Trust Company, Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): [Not Applicable/give name(s), address(es) and number(s)]
- (h) Names and addresses of additional Paying Agent(s) (if any): [•]

7. Distribution

- (a) Method of distribution: [Syndicated/Non-syndicated]
- (b) If syndicated, names of Managers: [Not Applicable]/[•]

- (c) Date of Subscription Agreement: [Not Applicable]/[•]
- (d) Stabilisation Manager(s): [•]
- (e) If non-syndicated, name of relevant Dealer: [Not Applicable]/[•]

SUMMARY OF PROVISIONS RELATING TO THE CERTIFICATES WHILE IN GLOBAL FORM

Initial Issue of Certificates

The Certificates of each Series will be in registered form. The Certificates will be issued both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States in reliance on Rule 144A or otherwise in private transactions that are exempt from the registration requirements of the Securities Act.

Form of Certificates

The Certificates of each Tranche offered and sold in reliance on Regulation S, which will be sold to persons who are not U.S. persons outside the United States, will initially be represented by ownership interests in a Regulation S Global Certificate. Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Certificates, ownership interests in a Regulation S Global Certificate may not be offered or sold to, or for the account or benefit of, a U.S. person and may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Regulation S Global Certificate will bear a legend regarding such restrictions on transfer.

The Certificates of each Tranche offered and sold in the United States or to U.S. persons may only be offered and sold in private transactions to QIBs, in each case acting for their own account or for the account of one or more QIBs. The Certificates of each Tranche sold to QIBs in reliance on Rule 144A will initially be represented by one or more Rule 144A Global Certificates. By the acquisition of an ownership interest in such 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 ownership interest, it will transfer such ownership interest in accordance with the procedures and restrictions contained in the Rule 144A Global Certificate.

No ownership interest in a Regulation S Global Certificate may be transferred to a person who takes delivery in the form of an ownership interest in a Rule 144A Global Certificate unless: (i) the transfer is to a person that is both a QIB, (ii) such transfer is made in reliance on Rule 144A, and (iii) the transferor provides the Registrar with a written certification to the effect that the transferor reasonably believes that the transferee is a QIB, that the transfer is being made in a transaction meeting the requirements of Rule 144A and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. No ownership interest in the Rule 144A Global Certificates may be transferred to a person who takes delivery in the form of an ownership interest in a Regulation S Global Certificate unless the transfer is to a non-U.S. person in an offshore transaction in reliance on Regulation S and the transferor provides the Registrar with a written certification to the effect that the transfer is being made to a person who is a non-U.S. person in accordance with Regulation S.

Global Certificates will either: (a) be deposited with a custodian for, and registered in the name of a nominee of, DTC; or (b) be deposited with a Common Depositary for, and registered in the name of a nominee of, Euroclear and Clearstream, Luxembourg, as specified in the applicable Pricing Supplement. Persons holding ownership interests in Global Certificates will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Certificates in fully registered form.

Exchange for Definitive Certificates

Interests in a Global Certificate will be exchangeable (free of charge), in whole but not in part, for definitive Certificates of a particular Series only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that: (i) in the case of Certificates registered in the name of a nominee

for DTC, either DTC has notified the Trustee that it is unwilling or unable to continue to act as depository for the Certificates or DTC has ceased to constitute a clearing agency registered under the U.S. Securities Exchange Act of 1934, as amended (the **Exchange Act**), and, in any case, no successor or alternative clearing system is available; or (ii) in the case of Certificates registered in the name of a nominee for a Common Depository for Euroclear and Clearstream, Luxembourg, the Trustee 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 or alternative clearing system is available. The Trustee will promptly give notice to Certificateholders in accordance with Condition 19 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, any of the Trustee or DTC, Euroclear and/or Clearstream, Luxembourg or any person acting on their behalf (acting on the instructions of any holder of an interest in such Global Certificates) may give notice to the Registrar requesting exchange. Any such exchange shall occur not later than ten days after the date of receipt of the first relevant notice by the Registrar. Definitive Certificates issued in exchange for an ownership interest in a Rule 144A Global Certificate shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under "*Subscription and Sale and Transfer and Selling Restrictions—Transfer Restrictions*".

Upon the transfer, exchange, or replacement of a definitive Certificate bearing the legend referred to under "*Subscription and Sale and Transfer and Selling Restrictions—Transfer Restrictions*", or upon specific request for removal of the legend on a definitive Certificate, the Trustee 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 Trustee and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Trustee, that neither the legend nor the restrictions on transfer set out therein are required to ensure compliance with the provisions of the Securities Act.

Transfer Restrictions

Interests in a Global Certificate may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Global Certificate. No owner of an interest in a Global Certificate will be able to transfer such interest, except in accordance with the applicable procedures of DTC and/or Euroclear and/or Clearstream, Luxembourg, in each case to the extent applicable.

The Certificates are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see "*Subscription and Sale and Transfer and Selling Restrictions—Transfer Restrictions*".

Amendment to Conditions

The Global Certificates contain provisions that apply to the Certificates that they represent, some of which modify the effect of the terms and conditions of the Certificates set out in this Offering Circular. The following is a summary of certain of those provisions:

Payments

All payments in respect of Certificates represented by a Global Certificate will be made (against surrender of that Global Certificate if no further payment falls to be made in respect of the Certificates) to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where **Clearing System Business Day** means Monday to Friday inclusive, except 25 December and 1 January.

For the purposes of any payments made in respect of Certificates represented by a Global Certificate, the definition of Payment Business Day in Condition 10(d) shall be substituted in full as follows:

"Payment Business Day means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business, in such jurisdictions as shall be specified as **Financial Centres** in the applicable Pricing Supplement and:

- (i) (in the case of a payment in a currency other than Euro) where payment is to be made by transfer to an account maintained with a bank in the Specified Currency, on which foreign exchange transactions may be carried on in the Specified Currency in the principal financial centre of the country of such Specified Currency; or
- (ii) (in the case of a payment in Euro) which is a TARGET Business Day; and
- (iii) in the case of any payment in respect of a Global Certificate denominated in a Specified Currency other than U.S. Dollars and registered in the name of The Depository Trust Company or its nominee and in respect of which an accountholder of The Depository Trust Company (with an interest in such Global Certificate) has made no election to and will receive any part of such payment in U.S. Dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City and London."

A record of each payment made will be noted on the relevant Register which shall be *prima facie* evidence that such payment has been made in respect of the Certificates.

Meetings

All holders of Certificates are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Certificates comprising such Certificateholder's holding.

Cancellation

Cancellation of any Certificate represented by a Global Certificate that is surrendered for cancellation (other than upon its redemption in full) will be effected by reduction in the aggregate face amount of the relevant Series of Certificates in the Register.

Notices

Notices required to be given in respect of the Certificates represented by a Global Certificate may be given by their being delivered (so long as such Global Certificate is held on behalf of DTC and/or Euroclear and Clearstream, Luxembourg or any other clearing system (as applicable)) to DTC, Euroclear, Clearstream, Luxembourg or such other clearing system, as the case may be, or otherwise to the holder of such Global Certificate, rather than by publication as required by the Conditions, provided that such notices must also be given or published in a manner which complies with the rules and regulations of any listing authority, stock exchange, quotation system or other relevant authority on which the Certificates are for the time being listed or admitted to trading or quotation. Any such notice shall be deemed to have been given to the holders of the Certificates on the day on which the said notice was given to DTC and/or Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as applicable).

Further Issues

Pursuant to the Agency Agreement, the Principal Paying Agent shall arrange that, where a further Tranche is issued which is intended to form a single Series with an existing Tranche at a point after the

Issue Date of the further Tranche, the Certificates of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CUSIP and CINS number which are different from the common code, ISIN, CUSIP and CINS assigned to Certificates of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series.

DESCRIPTION OF THE TRUSTEE

History

The Trustee is a public limited liability company incorporated in Pakistan on 5 November 2021 under the Companies Act 2017 (Act No. XIX of 2017) having its registered office at Room 115, S-Block, Debt Policy Coordination Office, Ministry of Finance, Pakistan Secretariat, Islamabad, Pakistan. The Trustee is registered pursuant to the Certificate of Incorporation issued with Corporate Unique Identification No. 0187537. Pursuant to Article 3(i) of the Trustee's memorandum of association (the **Trustee Memorandum**), the objects of the Trustee are to offer, issue and list sukuk from time to time and to participate in the transactions contemplated by the Transaction Documents. The Trustee is constituted pursuant to its articles of association (the **Trustee Articles** and together with the Trustee Memorandum, the **Trustee Constitutional Documents**). The Trustee Articles provide that the Trustee's power to borrow and issue securities is exercised by its directors.

The Trustee is wholly-owned by the Government. The Trustee has an authorised share capital of Rupees 100,000, divided into 10,000 ordinary shares of Rupees 10 each with powers to increase and reduce the capital of the Trustee and to divide the shares in the capital for the time being into several classes in accordance with the provisions of the Companies Act, 2017. The issued share capital of the Trustee is Rupees 100,000, divided into 10,000 ordinary shares of Rupees 10 each, which are all fully paid.

Business Activity

The Trustee has no prior operating or prior business history and will not have any substantial assets or liabilities other than in connection with the Certificates. The Trustee has no subsidiaries and no employees.

Board and Management

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

Mr. Izhar Ahmad, Deputy Secretary (Debt)	Director/Chief Executive Office
Mr. Muhammad Zaheer, Section Officer (Debt)	Director
Mr. Muhammad Khalil, Deputy Secretary (EF - C)	Director

The business address of each of the directors is Q-Block, Ministry of Finance, Pakistan Secretariat, Islamabad, Pakistan.

Financial Statements

Since the date of its incorporation, no financial statements of the Trustee have been prepared or filed with the Registrar of Companies, Islamabad. The fiscal year of the Trustee will end on 30 June of each year. The Trustee will prepare and file its annual accounts with the Registrar of Companies, Islamabad within 30 days of holding its first Annual General Meeting, which shall be held within 16 months from the date of its incorporation in accordance with the applicable legal and accounting requirements under the laws of Pakistan but is not required to, and does not intend to, publish annual audited accounts. The Trustee will not prepare any interim accounts.

As at the date of this Offering Circular, the Trustee does not have any indebtedness, bank overdrafts, borrowings, guarantees or contingent liabilities.

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 and (iii) 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

Pakistan's current population estimate for 2020-21 is 211.9 million, according to the Pakistan Bureau of Statistics. Over 96 per cent. of the population of Pakistan is Muslim. The national language is Urdu, which is also the official language. Urdu is the most widely spoken and understood language throughout Pakistan. The main regional languages are Punjabi, Sindhi, Pashto and Balochi.

According to the Labour Force Survey 2018-19, the total labour force of Pakistan was 68.74 million in 2018-19, of which 64.03 million were employed and 4.71 million (or 6.85 per cent) were unemployed. The population composition of the country is skewed towards the working age population. The population falling in the age group of 15 to 64 years is 61.4 per cent, while 12.1 per cent. of the population is between the ages of zero and four years and 22.1 per cent. is between five and 14 years. If this demographic dividend is properly utilised and skills are taught to young people to meet domestic and international market requirements, it would increase industrial productivity at home and result in higher remittances from abroad. The Government is, therefore, focusing on employment generation through skill development.

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 63.6 per cent. in 2017.

Government and Politics

Pakistan is currently the world's fifth largest country by population 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 elect members of the National Assembly, as well as the four provincial assemblies of Punjab, Sindh, Balochistan and KPK, was held on 25 July 2018. The Pakistan Tehreek-e-Insaf (PTI), led by Imran Khan, emerged as the single largest party, winning 116 out of a total of 272 directly elected seats and formed the Government. Imran Khan was elected Prime Minister by the National Assembly for the first time, taking the oath on 18 August 2018, and Dr Arif Alvi assumed the presidential office on 9 September 2018.

The elections of 25 July 2018 provided the second 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 Mian Muhammad Nawaz Sharif completed their terms. See "*The Islamic Republic of Pakistan – Form of Government – Legislature*" below.

The Government was elected in 2018 on a programme of transforming governance, strengthening the federation, inclusive economic growth, uplifting agriculture and conserving water, revolutionising social services and ensuring Pakistan's national security.

The 25th Amendment to the Constitution. This amendment was approved by the lower and upper houses of Parliament on 24-25 May 2018, received the assent of the President on 31 May 2018 and was published in the Gazette of Pakistan on 5 June 2018. It approves the merger of the Federally Administered Tribal Areas with the Khyber Pakhtunkhwa province. The effect of the merger is to give the same legal rights to the five million residents of the region formerly known as the Federally Administered Tribal Areas as the rights of citizens in the rest of Pakistan. For measures taken for the operational implementation of the 25th Amendment and integration of the Federally Administered Tribal Areas into the Khyber Pakhtunkhwa province, see "*Fight Against Extremism*" below.

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

- ***Executive.*** Dr Arif Alvi is currently President and constitutional head of state of the Islamic Republic of Pakistan. The Government is headed by the Prime Minister, Imran Khan, 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, Imran Khan, along with advisers to the Prime Minister and special assistants to the Prime Minister.

FEDERAL MINISTERS

Name	Portfolio
Mr. Ghulam Sarwar Khan	Aviation Division
Mr. Murad Saeed	Communications
Mr. Pervez Khattak	Defence
Ms. Zubaida Jalal	Defence Production
Mr. Omar Ayub Khan	Economic Affairs
Mr. Muhammad Hammad Azhar	Energy
Mr. Shafqat Mahmood	Federal Education, Professional Training, National Heritage and Culture
Mr. Shaukat Fayaz Ahmed Tarin	Finance and Revenue
Makhdoom Shah Mahmood Hussain Qureshi	Foreign Affairs
Chaudhary Tariq Bashir Cheema	Housing and Works
Dr. Shireen M. Mazari	Human Rights
Makhdoom Khusro Bukhtiar	Industries and Production
Mr. Fawad Ahmed	Information and Broadcasting
Syed Amin Ul Haque	Information Technology and Telecommunication
Sheikh Rashid Ahmed	Interior
Dr. Fehmida Mirza	Inter-Provincial Coordination
Mr. Ali Amin Khan Gandapur	Kashmir Affairs and Gilgit-Baltistan
Dr. Muhammad Farogh Naseem	Law and Justice
Syed Ali Haider Zaidi	Maritime Affairs
Mr. Ijaz Ahmad Shah	Narcotics Control
Syed Fakhar Imam	National Food Security and Research
Mr. Asad Umar	Planning, Development and Special Initiatives
Mr. Muhammad Mian Soomro	Privatisation
Mr. Muhammad Azam Khan Swati	Railways
Mr. Noor-UL-Haq Qadri	Religious Affairs and Inter-faith Harmony
Syed Shibli Faraz	Science and Technology
Sahibzada Muhammad Mehboob Sultan	States and Frontier Regions
Mr. Moonis Elahi	Water Resources

MINISTERS OF STATE

Name	Portfolio
Ms. Zartaj Gul	Climate Change
Mr. Muhammad Shabbir Ali	Housing and Works
Mr. Farrukh Habib	Information and Broadcasting
Mr. Ali Muhammad Khan	Parliamentary Affairs

ADVISERS TO THE PRIME MINISTER

Name	Portfolio
Mirza Shahzad Akbar	Adviser on Accountability and Interior with the status of Federal Minister
Mr. Abdul Razak Dawood	Adviser on Commerce and Investment with the status of Federal Minister
Mr. Zaheer-ud-din Babar Awan	Adviser on Parliamentary Affairs with the status of Federal Minister

Mr. Muhammad Ayub Afridi

Adviser on Overseas Pakistanis and Human
Resource Development

SPECIAL ASSISTANTS TO THE PRIME MINISTER

Name	Portfolio
Dr. Sania Nishtar	Special Assistant to the Prime Minister on Social Protection and Poverty Alleviation with the status of Federal Minister
Mr. Mohammad Shehzad Arbab	Special Assistant to the Prime Minister on Establishment with the status of Federal Minister
Malik Amin Aslam Khan	Special Assistant to the Prime Minister on Climate Change with the status of Federal Minister
Dr. Faisal Sultan	Special Assistant to the Prime Minister on National Health Services, Regulations and Coordination with the status of Federal Minister
Mr. Ali Nawaz Awan	Special Assistant to the Prime Minister on Capital Development Authority Affairs
Sardar Yar Muhammad Rind	Special Assistant to the Prime Minister on activities pertaining to Ministries of Water Resources, Power and Petroleum in Balochistan
Dr. Moeed W. Yusuf	Special Assistant to the Prime Minister on National Security and Strategic Policy Planning with the status of Federal Minister
Dr. Shahbaz Gill	Special Assistant to the Prime Minister on Political Communication in honorary capacity
Mr. Raof Hasan	Special Assistant to the Prime Minister on Information in honorary capacity
Malik Muhammad Amir Dogar	Special Assistant to the Prime Minister on Political Affairs with the status of Minister of State
Mr. Muhammad Usman Dar	Special Assistant to the Prime Minister on Youth Affairs in honorary capacity
Mr. Mahmood Baqi Moulvi	Special Assistant to the Prime Minister on Maritime Affairs in honorary capacity
Nawabzada Shahzain Bugti	Special Assistant to the Prime Minister on Reconciliation and Harmony in Balochistan with the status of Federal Minister
Dr. Arbab Ghulam Rahim	Special Assistant to the Prime Minister on Sindh Affairs in honorary capacity
Mr. Khalid Mansoor	Special Assistant to the Prime Minister on CPEC Affairs with the status of Minister of State
Mr. Shahzad Nawaz	Special Assistant to the Prime Minister on Culture, Arts and related Communications in honorary capacity
Mr. Aon Abbas Bappi	Special Assistant to the Prime Minister on E-Commerce in honorary capacity

- **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 July 2018. Of the current 342 seats in the National Assembly, 272 were directly elected according to popular vote. The number of directly elected seats will be reduced to 266 in the next elections to the National Assembly and the total number of seats will be reduced to 336 under the 25th Amendment to the Constitution, which came into effect on 5 June 2018. Of the remaining 70 seats, 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 five per cent. of the directly elected seats.

Until the elections held on 3 March 2021, the Senate consisted of 104 members, of whom 66 were elected on general seats. The rules for Senate elections have also changed as a result of the adoption of the 25th Amendment to the Constitution, as the eight seats from the Federally Administered Tribal Areas will no longer be there and the total number of Senate members will eventually be reduced to 96 (this number has already been reduced to 100 after the elections on 3 March 2021) with 58 elected on general seats. With respect to the remaining 38 seats, (i) four women are elected by the members of each Provincial Assembly and one woman is elected from the federal capital for a total of 17 seats; (ii) four *ulema* (religious scholars) are elected by the members of each Provincial Assembly and one technocrat (including an *aalim*, a religious scholar) is elected from the federal capital for a total of 17 seats; and (iii) an additional four non-Muslims, one from each Province, are elected by the members of each Provincial Assembly.

The term of the Senate's members is six years. However, one-half of its members retire after every three years. On 3 March 2021, polling for 37 seats in the Senate took place with 11 senators already elected unopposed from Punjab due to withdrawals from opposing candidates. According to preliminary results, PTI won 18 seats. PPP managed to win eight seats against the same number of its senators who retired. PML-N won only five new seats against 17 of its senators who retired. Another party that managed to gain ground was the Balochistan Awami Party, an ally of the ruling PTI, which secured six new seats against three of its senators who retired. PTI is now expected to become the single largest party in the Senate with 26 seats, followed by PPP with 20 seats, PML-N with 18 seats, and Balochistan Awami Party with 12 seats, with the other parties accounting for the remaining 24 seats. One setback for the Government was that PTI's candidate for the Islamabad seat and the then Federal Minister for Finance and Revenue Hafeez Shaikh lost to Yousaf Raza Gillani, the former prime minister and the joint candidate of opposition parties. On 29 March 2021, Dr. Hafeez Shaikh was removed from the post of the Federal Minister for Finance and Revenue.

A 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 the 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.

Pakistan's major emphasis has shifted from geo-politics to geo-economics with greater focus on optimally utilising its geo-economic location. Pakistan offers the shortest route to international seas to all Central Asian countries and western parts of China through Karachi and Gwadar. Pakistan offers economic bases and investment hubs to the world as a development partner.

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 Islamic Cooperation, 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 among its members, which include Iran, Pakistan, Turkey, five Central Asian republics (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) as well as Afghanistan and Azerbaijan. Pakistan is also a founding member of the South Asian Association for Regional Cooperation (**SAARC**), which includes Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. Pakistan ratified the South Asian Free Trade Area Agreement (**SAFTA**) in February 2006, which was applied with retrospective effect from 1 January 2006. The first tariff reductions under SAFTA were implemented on 1 July 2006. Pakistan hosted the Central Asia Regional Economic Cooperation Ministerial Conference in Islamabad in October 2016 followed by an ECO Summit in Islamabad on 1 March 2017.

Pakistan is a founding member of the Organisation of Islamic Cooperation (**OIC**), which is a large inter-governmental organisation with 57 member states. Pakistan hosts two important bodies of the OIC, which are the Standing Committee for Scientific and Technological Cooperation (**COMSTECH**) in Islamabad and the Islamic Chamber of Commerce, Industry and Agriculture (**ICCIA**) in Karachi. As an active member of the OIC, Pakistan will host the 48th Session of Council of Foreign Ministers of the OIC.

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. The 9th D8 Summit was held in Istanbul on 20 October 2017 during which Pakistan handed over its chairmanship of the organisation to Turkey. Bangladesh has become the chair of D8 until 2022 after it hosted the 10th D8 Summit on 8 April 2021. Prime Minister Imran Khan led Pakistan's delegation to the 10th D8 Summit.

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 (the SCO) extended observer status to Pakistan in July 2005. Pakistan's application for full membership with the SCO was granted on 9 June 2017 at the SCO's session in Astana (now Nur-Sultan), Kazakhstan. In addition to its six original members (China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan), the SCO currently includes India and Pakistan as member states and also has four observer states (Afghanistan, Belarus, Iran and Mongolia). Pakistan has been playing an active and dynamic role to advance the objectives and goals of the SCO.

As a founding member, Pakistan plays an active role in coalitions of developing countries such as the Group of 77 and China 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 is compliant with all applicable U.N. sanctions regimes. On a number of occasions, Pakistan assumed the leadership of key UN positions.

Peace Keeping

Pakistan's strong commitment to peace keeping 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 U.N. peace keeping forces, being one of the largest troop-contributing countries with 3,837 Pakistani troops, military experts and police deployed around the world in U.N. peace keeping missions as of August 2021.

Relations with Select Countries

The following describes Pakistan's relationship with its key allies and trading partners, as well as with other countries, the relationships with which are particularly important:

Relations with the United States (U.S.). Pakistan's relations with the United States have always figured prominently in Pakistan's foreign policy architecture. This relationship, spanning almost seven decades, is robust and wide ranging.

The summit-level interaction between Prime Minister Imran Khan and President Donald Trump on 22 July 2019 set the tone for a revived engagement between the two countries. The two leaders held comprehensive discussions with a focus on building a broad-based and enduring partnership between Pakistan and the United States. The Prime Minister again held detailed meetings with President Trump in New York on 23 September 2019 and in Davos, Switzerland, on 21 January 2020. There is a mutual desire to deepen economic engagement and enhance bilateral trade and investment between the two countries.

The new U.S. administration under President Joe Biden is well aware of the challenges of this region. President Biden (then Vice President) visited Pakistan twice in 2009 and 2011 and was awarded Hilal-e-Pakistan in 2008 when he was Chairman of the Senate Foreign Relations Committee. As Vice President in Obama Administration, he was part of the driving forces behind the passage of the Kerry Lugar Bill in 2009. President Biden has a deep understanding of the dynamics impacting Pakistan-U.S. relations. There has already been an exchange of messages between Prime Minister Imran Khan and President Biden. Pakistan seeks to work with the new U.S. administration to further strengthen the long-standing partnership between the two countries.

The U.S. is Pakistan's second largest export market, after the EU, accounting for 19.6 per cent. of total exports in 2020-21. In 2020-21, the total trade between Pakistan and the U.S. amounted to U.S.\$7,476 million. Pakistan enjoyed a trade surplus with the U.S. during this period. Pakistan's exports amounted to U.S.\$5,030 million while imports from the U.S. stood at U.S.\$2,446 million. The visit of U.S. Secretary of Commerce Wilbur Ross in February 2020 was useful in exploring ways and means to implement the vision of the leadership for enhancing bilateral trade and investment between the two countries. In addition, a video conference was held between Advisor to the Prime Minister on Commerce and Trade Abdul Razzak Dawood and United States Trade Representative Catherin C. Tai in May 2021 to further explore the avenues of bilateral cooperation in trade. The Advisor to the Prime Minister on Commerce and Trade spoke with U.S. Commerce Secretary Gina Raimondo on 28 August 2021 and both sides agreed to boost trade and investment ties between Pakistan and the USA.

The U.S. is one of the major foreign investors in Pakistan. U.S. foreign direct investment (FDI) is primarily focused on the food and beverages, chemicals, financial services, oil and gas exploration, cement, construction, communication and electronics sectors. Over 65 U.S. companies are running profitable businesses in Pakistan. According to the American Business Council of Pakistan, the U.S. companies have collectively invested over U.S.\$1.5 billion in Pakistan. Their cumulative annual revenue is over U.S.\$3 billion.

It should be noted, however, that net foreign private investment from the U.S. was negative in 2020-21 (net outflow of U.S.\$21.2 million), with net FDI inflow of U.S.\$168.4 million and net foreign portfolio investment outflow of U.S.\$189.5 million. It was also negative in 2019-20 (net outflow of U.S.\$42.5 million), with net FDI inflow of U.S.\$99.2 million and net foreign portfolio investment outflow of U.S.\$141.8 million.

Adam Boehler, the CEO of the U.S. International Development Finance Corporation (IDFC) visited Pakistan on 1 July 2020 to help mobilise private sector investment in the country. IDFC has shown interest in exploring investment opportunities in Pakistan in agriculture, energy and infrastructure development projects, among others.

The Trade and Investment Framework Agreement (TIFA) is an important minister-level forum to discuss bilateral trade-related issues. The 8th TIFA Council meeting was held in Islamabad on 18-19 October 2016. A TIFA intersessional meeting was convened in May 2019 to discuss agenda items for the next TIFA council meeting, which has not been planned so far. On 8 December 2020, the Ministry of Commerce held a virtual meeting with the office of the U.S. Trade Representative under the TIFA framework to discuss trade and investment opportunities in the respective countries.

Recent announcement by Amazon to open seller registration for Pakistani companies is an important milestone for Pakistan's growing e-commerce and start-up eco-system. The Government is also working with Amazon to bring Amazon Web Services to Pakistan as well as on outsourcing of materials for Amazon brands from Pakistan.

Cooperation between Pakistan and the U.S. in the field of education, science and technology is an important element in shifting the security-centric focus of this relationship to a multidimensional

partnership between the two countries. Pakistan is also the beneficiary of U.S. government's largest bilateral Fulbright scholarship programme.

Pakistan and the United States have also been closely cooperating in wake of the COVID-19 pandemic. There have been regular telephonic exchanges between the two sides aimed at enhancing cooperation to mitigate impact of the COVID-19 pandemic on health and economy. The U.S. has also extended COVID-19-related assistance to Pakistan since the outbreak of the pandemic. Provision of essential supplies from the U.S. government in 2021 included personal protection equipment, diagnostic kits and oximeters along with accessories. In 2020, the U.S. Government earmarked U.S.\$40 million as COVID-19 response assistance to Pakistan, which also included a donation of ventilators for COVID-19 patients.

There has been convergence between Pakistan and the U.S on finding a peaceful resolution of the Afghan conflict. In line with the Government's vision for a peaceful neighbourhood, Pakistan facilitated the U.S.-Taliban talks in good faith and has welcomed the signing of the historic peace agreement between the U.S. and Taliban in March 2020. After the Taliban take-over of Kabul, Pakistan provided assistance to the U.S. and the international community with respect to the withdrawal of their nationals and vulnerable Afghans. Pakistan desires a stable and peaceful Afghanistan. Pakistan has continued to host millions of Afghan refugees for almost four decades. It is Pakistan's strong belief that a peaceful and stable Afghanistan is imperative for economic development and regional connectivity.

The Pakistani-American diaspora is a diverse and vibrant community that is recognised as an increasingly important part of the American society. The community has been one of the strongest bridges strengthening the bilateral relationship between the two countries. The Pakistani diaspora has played an important part in the economic development of the U.S. and with the passage of time they are becoming better integrated to make an even more useful contribution to the U.S. economy and society. The Pakistani community is also increasingly politically engaged and many Pakistani Americans have been appointed to important positions in the new U.S. administration.

Relations with China. Pakistan and China are joined together in a broad-based and long-term "All-Weather Strategic Cooperative Partnership". The two countries have a multi-faceted bilateral cooperation in diverse fields such as economic, political, strategic, defence and cultural areas. Pakistan and China support each other on the issues of core national interests and major concerns.

High-level visits and exchanges are the hallmark of Pakistan-China relations. President Dr. Arif Alvi visited China on 16 and 17 March 2020. Prime Minister Imran Khan visited China three times: on 7 to 9 October 2019, on 25 to 28 April 2019 and on 2 to 5 November 2018.

This year marks the 70th anniversary of the establishment of diplomatic relations between Pakistan and China. Both countries are celebrating the 70th anniversary in a befitting manner.

China is Pakistan's largest trading and investment partner. Bilateral trade, which stood at U.S.\$1.3 billion in 2002, crossed U.S.\$15.3 billion in 2020-21. The second phase of the China Pakistan Free Trade Agreement (**CPFTA-II**) was signed during the Prime Minister's visit to China in April 2019 and became effective on 1 January 2020. CPFTA-II has the potential to enhance Pakistan's exports to China. After the launch of CPFTA-II, Pakistan's exports to China have seen an 88 per cent. growth on a year-on-year basis. Net FDI inflow from China amounted to U.S.\$757.9 million in 2020-21 (or 41 per cent. of the total net FDI in 2020-21) as compared to net FDI inflow of U.S.\$846.6 million in 2019-20 (or 33 per cent. of the total net FDI in 2019-20).

With the official launch of China-Pakistan Economic Corridor (**CPEC**), the bilateral relationship has been elevated to new heights. CPEC is a flagship project of the Belt and Road Initiative aimed at greater connectivity and trade linkages between Pakistan and China through a network of road, rail, fibre optic cable, energy pipelines and power generation projects. Many of the projects are in implementation

phase, while extensive planning is also under way on all others. These projects are divided into short-term (to be completed by 2020), medium-term (to be completed by 2025) and long-term (to be completed by 2030) categories. The combined cost of the entire portfolio of these projects has risen from U.S.\$46.6 to U.S.\$62 billion.

CPEC is a transformational initiative and it has the potential to act as the pivot of regional peace and connectivity. In a short span of time, Pakistan has completed nineteen projects. Twenty-eight projects are under construction, while forty-one are in the pipeline. Pakistan is upgrading its infrastructure and modernising its transport network. In the first phase of CPEC, over 1,544 km of roads had been constructed. Another 1,456 km are under construction. Over the past seven years, CPEC projects have created 26,795 power sector jobs and have boosted local power industry. CPEC motorway projects have created 50,000 jobs. Recently, agreements on Kohala and Azad Pattan power projects have been signed, which involve an investment of U.S.\$4 billion and are expected to create approximately 3,000 new jobs in Pakistan.

The second phase of CPEC aims at promoting agriculture cooperation, industrialisation, job creation and socio-economic development. Out of the nine special economic zones (SEZs) three (Rashakai in KPK, Dhabeji in Sindh and Allama Iqbal in Punjab) have been fast-tracked under CPEC. These SEZs are expected to host industries producing, among others, textile products, home building materials, electronic and electrical appliances, pharmaceuticals, automobiles, mechanical equipment and packaging. The ground-breaking ceremony for the Rashakai SEZ was held in May 2021.

There are ten areas of cooperation under CPEC: (i) energy, (ii) transport infrastructure, (iii) Gwadar, (iv) industrial cooperation, (v) CPEC security, (vi) policy coordination/planning, (vii) socioeconomic development, (viii) international cooperation and coordination, (ix) agriculture and (x) science and technology.

Gwadar port is being developed under CPEC as energy, trade and logistical hub, which is expected deepen regional connectivity. The establishment of Gwadar Free Zone has presented Gwadar as a tax-haven for investors and has already attracted multiple investors. The businesses that are registered in the Free Zone will enjoy tax benefits for 20 years.

After the outbreak of COVID-19, Pakistan and China provided support to each other. China provided 60 plane-loads of medical relief goods. A team of Chinese medical experts also visited Pakistan to provide assistance in containing the pandemic. The National Institute of Health in Islamabad has started local production of PakVac vaccine in Pakistan with the help of China. Pakistan has approved emergency use authorisation of Sinopharm, CanSino and SinoVac vaccines in Pakistan and provided millions of doses of COVID-19 vaccines to Pakistan as a gift. Pakistan is also procuring Chinese vaccines on a commercial basis.

One of the most significant and promising aspects of Pakistan-China bilateral relations is the increasing people-to-people contacts. Currently, there are more than 28,000 Pakistani students studying in China. China and Pakistan have established fourteen sister-city and seven sister-province relationships to further enhance bilateral ties between the two countries. Pakistan has also established eleven Urdu language departments and seven Pakistan study centres in various Chinese universities.

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 internationally recognised disputed area of Jammu and Kashmir. The U.N. Security Council has passed several resolutions calling for a U.N. supervised plebiscite in Jammu and Kashmir, which have not yet been implemented due to India's unwillingness to implement the relevant U.N. Security Council's resolutions. 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 the Jammu and Kashmir dispute 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 two Foreign Secretaries' meeting scheduled for mid-January 2016 was unilaterally postponed by India due to a terrorist attack on the Indian Pathankot Air Force Station that occurred at the beginning of that month. Pakistan condemned the Pathankot attack, extended its condolences and has been cooperating with the Indian side to investigate the attack.

Pakistan conveyed its concerns to the Indian Government and the international community in 2016 over what it views as the involvement of Indian intelligence agencies in subversive and terrorist activities within Pakistan. Pakistan's law enforcement agencies apprehended Commander Kulbhushan Yadav on 3 March 2016 on charges of involvement in various subversive activities to destabilise law and order in Balochistan and Karachi. Commander Kulbhushan Yadav has since been convicted by a military court of operating illegally in Balochistan and has been sentenced to death. The Indian Government has initiated proceedings in the International Court of Justice at the Hague over the question of consular access to Commander Kulbhushan Yadav. In line with the judgment of the International Court of Justice, Pakistan has already provided consular access to the Indian High Commission twice and has taken all necessary steps for effective review and reconsideration of the case. The offer of a third consular access has been made. The case is currently in the Islamabad High Court.

On 5 August 2019, the Indian government took steps to alter the internationally recognised status of Jammu and Kashmir and has also introduced laws to alter the demographic structure of the occupied territory and has amended the land ownership laws.

Political and security risks in the region have significantly increased following these steps in Jammu and Kashmir, which India views as an internal matter. Pakistan has reacted critically to India's unilateral actions in Jammu and Kashmir. Moreover, Pakistan has highlighted this issue at all multilateral forums, including the United Nations, the Human Rights Council, the OIC, world parliaments and various other international and regional organisations.

Pakistan has strongly and publicly condemned the actions of the Indian government and the Indian armed forces in Jammu and Kashmir, including with respect to use of force. Pakistan has also objected to the Indian government's efforts to change the demographic structure of the occupied territory in violation of the relevant U.N. Security Council resolutions and international law. On 12 September 2021, Foreign Minister of Pakistan along with the Minister for Human Rights and the National Security Adviser unveiled a dossier documenting human rights violations perpetrated by the Indian armed forces in Jammu and Kashmir.

Pakistan's Economic Coordination Council, in its meeting on 31 March 2021, decided to recommend import of cotton, cotton yarn and sugar from India. However, the federal cabinet, in its meeting on 1 April 2021, deferred the decision of the Economic Coordination Council.

Relations with the United Kingdom. Pakistan has developed a close relationship with the UK which has been strengthened by the substantial trading relationship between the countries, the UK being Pakistan's largest trading partner in Europe in 2020-21, as well as hosting a Pakistani diaspora of approximately 1.5 million. The volume of trade between the two countries was U.S.\$2.8 billion in 2020-21.

Post-Brexit UK continues to provide to Pakistan the same concessions that are available to Pakistan under the GSP Plus scheme of the European Union.

The UK 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. Pakistan remains one of the largest recipient countries of the UK development assistance programme. A draft of a new Development Partnership Arrangement (**DPA**) was shared by the UK Department for International Development with the Economic Affairs Division of the Ministry of Finance in May 2019. The Government of Pakistan's stakeholders reviewed the draft of the DPA and their feedback has been shared with the UK's Foreign, Commonwealth and Development Office.

At the Fourth Ministerial Review of the Pakistan-UK Enhanced Strategic Dialogue in London in June 2019, Pakistan and the United Kingdom reaffirmed their commitment to take the bilateral relationship forward and work for shared prosperity. Foreign Minister Shah Mahmood Qureshi led the Pakistani side, while the British delegation was headed by the Foreign Secretary Jeremy Hunt.

The two sides agreed to continue building upon the cooperation within the framework of Enhanced Strategic Dialogue to take this partnership forward. They agreed to work together to facilitate business-to-business contacts, explore niche areas for investment, improve the business climate and raise awareness about market opportunities in Pakistan. The British Foreign Secretary announced the UK Department for International Trade's decision to more than double the available support for exports to Pakistan from up to GBP 400 million to GBP 1 billion as part of the growing cooperation in economic terms between the two countries.

The two leaders also reaffirmed their continuing cooperation in security and counter-terrorism measures.

With over 110 British companies operating in Pakistan, the UK was the largest source of net FDI in Pakistan in the world in 2018-19 (U.S.\$185.2 million). However, UK's net FDI in Pakistan decreased to U.S.\$119.1 million in 2019-20 before increasing to U.S.\$143.5 million in 2020-21.

Relations with Afghanistan. Relations with Afghanistan are inextricably tied to efforts to resolve conflict in Afghanistan through peace talks. In its efforts to facilitate the Afghan peace process, and with the conviction that there was no military solution to the conflict in Afghanistan, Pakistan facilitated the direct talks between the U.S. and Taliban and also provided assistance in the intra-Afghan negotiations. There have been multiple attempts since 2009 to resolve the conflict between the Afghan government forces and the Taliban through negotiations.

The U.S.-Taliban peace agreement was signed on 29 February 2020 and was followed by a start of intra-Afghan negotiations on 12 September 2020. The initial stalemate in the intra-Afghan negotiations was overcome when both the Afghan government and the Taliban reached an agreement on 2 December 2020 on the rules and procedure for negotiations and agreed to proceed with substantive talks. After a month's break, the second round of intra-Afghan negotiations commenced on 5 January 2020 in Doha.

The Taliban took over Kabul on 15 August 2021 without any bloodshed thus averting the prospects of a civil war and subsequent mass exodus of refugees. The Taliban announced formation of an interim government on 7 September 2021. In view of the impending humanitarian crisis, Pakistan dispatched humanitarian assistance comprising food and medicines for the people of Afghanistan. Four C-130s plane loads of food stuff and medicine have been handed over to Afghan authorities.

In addition to cooperation in trying to achieve significant progress in the peace process, Afghanistan and Pakistan are committed to 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 and Central Asia – South Asia (**CASA 1000**).

The two countries have witnessed a positive trajectory in bilateral relations with significant progress on important bilateral matters including the revision of the Afghanistan Pakistan Transit Trade Agreement

and the commencement of negotiations on the Preferential Trade Agreement. High-level leadership contacts and bilateral visits, including that of the Prime Minister of Pakistan in November 2020, are a manifestation of the further strengthening of Pakistan-Afghanistan relations. Pakistan also recently opened additional border crossing points with a view to deepen economic and trade relations with Afghanistan, with the Torkham border crossing being operational 24 hours a day and seven days a week. Gwadar port is now being used for Afghan transit trade. Visa policy for Afghans has also been revised for their ease of movement and stay in Pakistan. These measures have further strengthened the bilateral relations and widened the economic engagement between the two countries.

At present, there are approximately 1.42 million registered Afghan refugees, approximately 0.84 million Afghan citizenship card-holders and an estimated 0.5 to 0.7 million undocumented Afghans in Pakistan.

Relations with Iran. Pakistan and Iran enjoy close and cordial relations based on historic ties, and a 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 member states, the number of which has increased to 10 over the years. After the imposition of financial sanctions on Iran, bilateral trade between Iran and Pakistan declined considerably, from over U.S.\$1 billion in 2009-10 to U.S.\$30 million in 2016-17, U.S.\$18 million in 2017-18, U.S.\$3 million in 2018-19 and just U.S.\$103 thousand in 2019-20 and U.S.\$155 thousand in 2020-21.

For developments with respect to the Iran-Pakistan Gas Pipeline project, see "*Overview of Pakistan's Economy – Energy in Pakistan – Iran-Pakistan Gas Pipeline Project*" below.

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 (the **FTA**) was signed and the negotiations on the FTA are continuing. Pakistan-Turkey bilateral relations have been institutionalised under the High Level Strategic Cooperation Council (**HLSCC**), which is the highest level decision-making forum providing strategic direction to further strengthen the partnership. Co-chaired by President Erdogan and Prime Minister Imran Khan, the 6th Session of the HLSCC was held in Islamabad in February 2020. Among its achievements was the signing of the Pakistan-Turkey Strategic Economic Framework (the **SEF**). The SEF has 71 action points with respect to deeper cooperation between the two countries in various fields.

In 2020-21, bilateral trade between Pakistan and Turkey amounted to U.S.\$1,135 million with Pakistani exports of U.S.\$268 million and imports of U.S.\$867 million. Turkey's net foreign direct investment into Pakistan was U.S.\$73.8 million in 2018-2019, but then decreased significantly to U.S.\$26.1 million in 2019-20 and U.S.\$13.8 million in 2020-21.

Relations with Saudi Arabia and other GCC members. Pakistan has strong bilateral relations with various GCC countries spanning trade, investment, financial support and military cooperation. There are approximately 4.5 million Pakistanis in Gulf countries, including approximately 2.0 million in Saudi Arabia and 1.3 million in the United Arab Emirates, which are among the largest trading partners of Pakistan.

Pakistan and Saudi Arabia enjoy special relations, grounded in common faith and history. There are regular exchanges at senior government levels. Prime Minister Imran Khan has already visited Saudi Arabia several times during his term in office (in September 2018, October 2018, May-June 2019, September 2019, October 2019, December 2019, May 2021 and October 2021).

Saudi Arabia has provided crucial financial support to Pakistan on numerous occasions, particularly during times of economic or financial crises in Pakistan. Notably, Saudi Arabia provided Pakistan with a U.S.\$6 billion assistance package (consisting of a deposit and oil on deferred payments) in October

2018 to help ease Pakistan's balance-of-payments difficulties. This was followed by an agreement between the two countries for greater cooperation in the energy and power sectors, including the planned construction of an oil refinery by a state-owned Saudi oil and gas company, Saudi Aramco.

On 17 February 2019, the Crown Prince of Saudi Arabia, Mohammad bin Salman al-Saud, made his first official visit to Pakistan, which was accompanied by the signing of investment agreements worth around U.S.\$21 billion between the two countries.

In late October 2021, during the visit of Prime Minister Imran Khan to Saudi Arabia, Saudi Arabia announced that it will deposit U.S.\$3 billion in the SBP for a year. This U.S.\$3 billion deposit into the SBP was received from Saudi Arabia in December 2021. In addition, Saudi Arabia is also expected to provide Pakistan with financing in the amount of U.S.\$1.2 billion for refined petroleum products purchases.

Pakistan and Saudi Arabia have excellent relations in the area of defence and security. The two sides regularly hold meetings of joint military cooperation committee and a military cooperation committee.

Saudi Arabia is home to over two million Pakistani expatriates, the largest number of Pakistani expatriates in the world. Saudi-based Pakistanis are a substantial source of foreign remittances, accounting for U.S.\$7.7 billion, being 26.1 per cent. of the total received by Pakistan in 2020-21.

The United Arab Emirates extended crucial financial support to Pakistan on a number of occasions, particularly in the case of U.S.\$2 billion budgetary support that was extended by the United Arab Emirates in 2019.

Relations with Russia. Pakistan attaches great importance to its relations with the Russian Federation. Pakistan seeks a long-term and broad-based partnership with Russia, especially in the areas of trade, energy, defence, security, space, peaceful use of nuclear energy, culture and education. A strong partnership between Pakistan and Russia would contribute towards promoting peace, stability and intergovernmental cooperation in the South, Central and West Asian region. Russia is also keen to expand its relations with Pakistan since it considers that close cooperation between Pakistan and Russia would not only be beneficial for the two countries but would also help in building stability and prosperity in the region. Russia provided consistent support to Pakistan for its membership of the Shanghai Cooperation Organisation.

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.

Russia and Pakistan entered into an agreement in October 2015 in relation to the financing and construction of what was previously known as the North-South Gas Pipeline, a LNG-import pipeline from Karachi to Lahore now called the Pakistan Stream Gas Pipeline. The two countries signed an amended Protocol to the inter-governmental agreement on Pakistan Stream Gas Pipeline on 28 May 2021 and Heads of Terms of the Shareholders Agreement in July 2021. The latter document broadly covers the corporate, governance, financing and contractual structure of the project. The parties agreed that the Russian nominated entity (Pakstream LLC) will have not less than 26 per cent. of shares in the special purpose company that will be implementing the project, while the Pakistani nominated entity (Inter State Gas Systems (Pvt) Ltd) will have up to 74 per cent. of shares in this special purpose company. Most recently, during the technical session that took place on 24 to 26 August 2021 in Islamabad, the technical design parameters for the pipeline and way forward for the implementation of the front end engineering design and the route survey were finalised.

Pakistan and Russia's defence cooperation continues to strengthen. The two countries signed a defence cooperation agreement in 2014 and have since held numerous joint military exercises. These exercises are a manifestation of the parties' mutual desire to broaden their defence ties.

Nuclear Programme

Pakistan's nuclear programme commenced in 1956 with the establishment of the Pakistan Atomic Energy Commission with the aim of applying nuclear science and technology for the benefit of socio-economic development. Pakistan is benefitting from nuclear applications in various areas such as power generation, health, agriculture, industry, environmental protection and basic sciences. Nuclear science and technology are being employed in Pakistan in relation to eleven of the UN Sustainable Development Goals.

Currently, six nuclear power plants are in operation in Pakistan, while one 1,100 MW power plant is nearing completion. Pakistan's pursuit of nuclear power generation and expansion of its share in the national energy mix is driven by the fact that nuclear energy provides a cheaper and cleaner alternative to fossil fuels-based power generation as well as the need to strengthen energy security and to deal with the challenge of climate change.

Pakistan has maintained nuclear deterrent for self-defence based on the concept of credible minimum deterrence and guided by the policy of restraint and responsibility. In pursuit of its commitment to the global non-proliferation objectives, Pakistan supports the International Atomic Energy Agency (the **IAEA**) safeguards system and has placed all of its civil nuclear facilities and power plants under the IAEA safeguards.

Pakistan attaches great importance to nuclear safety, security and export controls. It continues to maintain and regularly update robust export controls consistent with the scope of controls maintained by the international export control regimes including that of the Nuclear Suppliers Group and the Australia Group as well as the Missile Technology Control Regime. In 2016, Pakistan announced its adherence to the guidelines of the Nuclear Suppliers Group.

The National Command Authority of Pakistan, which was 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 energy and related programmes.

Pakistan Nuclear Regulatory Authority regulates the safety and security of civilian nuclear materials and facilities. It works closely with the IAEA and benefits from its regulations and guidance.

Pakistan is a party to the Convention on Nuclear Safety, the Convention on Early Notification of a Nuclear Accident, the Convention on Assistance in Case of a Nuclear Accident or Radiological Emergency and the Convention on the Physical Protection of Nuclear Material (including its 2005 amendment). It is also implementing non-legally binding codes of conduct, including the IAEA Code of Conduct on the Safety and Security of Radioactive Sources, together with its two Supplementary Guidance documents, and the Code of Conduct on the Safety of Research Reactors. A Nuclear Emergency Management System has been established at the national level to handle nuclear or radiological emergencies. National Radiation Emergency Coordination Centre and Nuclear Security Emergency Coordination Centre have been established at the Pakistan Nuclear Regulatory Authority as the contact point with the international community and the IAEA.

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 15 years. Between 1 January 2000 and 23 June 2019, the fight against extremism in Pakistan has cost Pakistan approximately

63,900 lives, including those of security personnel, caused damage to infrastructure and has caused the internal dislocation of millions of people from parts of north-western Pakistan, in addition to the erosion of the investment climate, reduced production, growing unemployment and the slowdown of 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 and demand for imports reduced, with a consequential decline in tax collection and diminished inflows of foreign investment.

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 lowered 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 damage to physical infrastructure, 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 TTP, 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 the rate of terrorist activity has declined.

In addition to terrorist attacks, Pakistan also faces attacks from insurgents who want greater autonomy in Balochistan.

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 incidents 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 December 2014, seven gunmen affiliated with the TTP conducted a terrorist attack on the Army Public School in the northwestern Pakistani city of Peshawar. In May 2015, gunmen attacked buses in Karachi and Mastung. In March 2016, many people lost their lives in a suicide attack on a public park in Lahore. In February 2017, the crowded Sufi shrine of Lal Shahbaz Qalander in Sindh was attacked. Back-to-back explosions in the Turi Bazaar area of Parachinar in June 2017 caused substantial loss of life. A suicide bomber killed over a hundred people at an election rally in July 2018 in the town of Mastung in Balochistan organised by Siraj Rasani, a Balochistan Awami Party candidate, who was also killed in the attack; the bombing was the most deadly attack in Pakistan in over three years. In another election-related attack, in July 2018, a suicide bomber blew himself up outside a polling station in the city of Quetta. A bomb explosion in April 2019 near the Hazargangi area, populated mostly by Shia Hazara residents, in Quetta resulted in many casualties. In May 2019, a suicide attack outside the Data Durbar, a prominent Sufi shrine in Lahore, killed several people and injured many others.

On 29 June 2020, terrorists attacked the Pakistan Stock Exchange building in Karachi. The attack was carried out by four militants, who attempted to storm the stock exchange building but failed to do so, and were killed in the response by security forces. Four other people were also killed in the ensuing firefight. Responsibility for the attacks was claimed by the Balochistan Liberation Army (**BLA**), a

militant group that runs a separatist campaign in Pakistan's Balochistan province. In addition to attacks on police and military forces, the BLA has targeted Chinese infrastructure projects and Chinese nationals. Its previous major attack was in May 2019, when BLA militants stormed a hotel near the Gwadar Port in Balochistan, which is being developed as one of the main projects in the China-Pakistan Economic Corridor. On 16 October 2020, the Government announced that 20 security personnel, including army troops, had been killed in separate attacks in Balochistan and Khyber Pakhtunkhwa provinces. The first incident took place in the North Waziristan area of Khyber Pakhtunkhwa province, close to the northwestern border with Afghanistan; six soldiers died in a bomb attack claimed by *Tehreek-i-Taliban*. The second attack was an ambush on a convoy of energy company employees near the port city of Gwadar, in which 14 paramilitary troops and private guards were killed. In early January 2021, 11 coal miners from the Shia Hazara community were murdered near Quetta, the capital of Balochistan province, in an attack claimed by the Islamic State terrorist group. In April 2021, a powerful explosion ripped through the parking lot of Serena Hotel in Quetta, the capital of Baluchistan province, killing five people and injuring at least 13 others, some of them critically. The bomber apparently targeted visiting Chinese diplomats and detonated the vehicle-borne explosives just before China's ambassador to Pakistan was due to arrive back at the hotel. Pakistani Taliban claimed responsibility for this bombing. In July 2021, 23 people, including nine Chinese construction workers, were killed in a terrorist attack in the KPK province near the site of the Dasu hydropower project.

In the wake of the terrorist attack on the Army Public School in Peshawar, the previous 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 by the SBP and Federal Investigation Authority to restrict terrorist funding. In addition, the previous Government has stepped up electronic and social media monitoring to ensure that information that 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.

The new Government that assumed office in August 2018 has implemented certain additional measures in the fight against extremism. As part of *madrassa* reforms in the broader context of counter-extremism measures, it has taken steps to mainstream the *madrassas* into the formal education sector.

With respect to the 25th Constitutional Amendment that was adopted in May 2018 as part of the NAP, various measures have been taken for operational implementation of the 25th Amendment and integration of the Federally Administered Tribal Areas (FATA) into Khyber Pakhtunkhwa province. These include the integration of the FATA Secretariat, police deployment, reorganising law enforcement, extending prisons, probation and rehabilitation facilities, introducing local government and extending prosecution services. The following major steps have been taken with respect to the integration of FATA into Khyber Pakhtunkhwa province since June 2018:

- re-designation of tribal agencies and frontier regions in FATA as districts and sub-divisions of the Khyber Pakhtunkhwa province;
- the establishment of judicial institutions in all merged districts;
- the transfer of all directorates of FATA Secretariat to Khyber Pakhtunkhwa;
- the completion of the delimitation of constituencies (redrawing constituency boundaries);
- holding elections to the Khyber Pakhtunkhwa provincial assembly; and

- the establishment of additional police stations.

Since 2018, the Government has taken further steps to strengthen legal regime to combat terrorism and extremism. Among other measures, it introduced Removal and Blocking of Unlawful Online Content (Procedure, Oversight and Safeguard) Rules 2020 to counter challenges of cyber terrorism/extremism and Mutual Legal Assistance Act 2020, which enhances cooperation among states for obtaining assistance in the investigation or prosecution of criminal offences, was adopted by parliament. Moreover, the Government also introduced, and parliament subsequently adopted, certain amendments to the existing legislation, such as amendments to Anti-Terrorism Act 1997, Anti-Money Laundering Act 2010, as well as National Counter Terrorism Authority (Amendment) Act 2020.

There have been historic issues between India and Pakistan related to extremist activity. In September 2013, the then Prime Minister Nawaz Sharif promised to take action against *Lashkar-e-Taiba* (the South Asian terrorist organisation) 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. Another suspect, Sufayan Zafar, was released on bail in July 2017 as a result of lack of evidence against him. Six suspects remain in custody. The legal process in this case remains stalled due to the reluctance of the Indian authorities to send witnesses for cross-examination by the Pakistani court. Zaki-ur Rehman Lakhvi was later arrested in relation to terrorism financing and, in January 2021, sentenced to three concurrent five-year sentences.

It is estimated that the total cost to Pakistan of the fight against extremism during the period from June 2001 and February 2018 amounted to U.S.\$126.79 billion, equivalent to Rupees 10,762.64 billion. Annual costs have decreased sharply from Rupees 2,037.33 billion in 2010-11 to Rupees 572.6 billion in 2016-17 and Rupees 223.32 billion in the first eight months of fiscal year 2017-18 as a result of the improving security situation.

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 (the **NACTA**) as Pakistan's anti-terrorism institution mandated with developing a national counter-terrorism plan, coordinating the work of all 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, which allowed the Government to publish lists of organisations or individuals who are suspected to be involved 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 involved in 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 previous Government that remained in power until 31 May 2018 announced its National Internal Security Policy 2014-2018 (**NISP 2014**) that set out its four-year plan to improve the security situation in Pakistan. Under the supervision of the NACTA, NISP 2014 provided for: (i) dialogue with anti-state groups to resolve disputes, (ii) isolation of terrorists from their social and financial support systems and (iii) improvement of the resources available to the security forces to effectively prevent terrorist attacks.

NISP 2014 was followed by the National Internal Security Policy 2018-2023 (**NISP 2018**). NISP 2018 builds on NISP 2014, incorporates the lessons learnt during the implementation of the NAP and proposes a way forward based on the current situation in Pakistan. NISP 2018 envisions a peaceful, democratic and inclusive society forged by the promotion of the rule of law, inclusive growth, political stability and respect for diversity. It, therefore, sets forth establishing the rule of law, the creation of a shared vision, providing social justice and ensuring political stability as its strategic goals and objectives.

As a result of the implementation of NISP 2014, NISP 2018, NAP and the military operations of *Zarb-e-Azab* and *Radd-ul-Fasad*, there has been a significant reduction in the number of terrorist incidents reported in the country, as the following table from the National Counter Terrorism Authority of Pakistan demonstrates:

TERRORIST INCIDENTS

Year or Period	No. of incidents
2013	1,571
2014	1,816
2015	1,139
2016	785
2017	741
2018	584
2019	482
2020	381

The National Counter Terrorism Authority figures indicate that the total number of terrorist attacks in Pakistan decreased by 17.5 per cent. in 2019 and by 21.0 per cent. in 2020 and the total number of deaths decreased by 22.2 per cent. in 2019 and by 38.1 per cent. in 2020. Similarly, the Global Terrorism Index, 2020 acknowledges Pakistan's decrease in terrorist activities in 2019 as compared to 2018. Deaths from terrorist attacks decreased from 543 in 2018 to 300 in 2019. The number of deaths from terrorist attacks in 2019 was 87 per cent. lower than during the peak year of 2013 while the number of terrorist incidents in 2019 was 86 per cent. lower than in 2013.

However, there has been an increase in the number of terrorist incidents in selected areas on the border of Afghanistan in 2021 due to the developments in Afghanistan in that year.

The significant reduction in terrorist incidents demonstrates the success of Pakistan's armed forces in the fight against extremism. The improvement in the security situation can only have a positive impact on the economy.

Significant Litigation

On 29 July 1993, BHP Minerals (**BHP**) and the Balochistan Development Authority signed the Chagai Hills Exploration Joint Venture Agreement (**CHEJVA**). Subsequently, on 23 November 2006, Tethyan Copper Company Pty Limited (**TCC**) purchased BHP's interests in CHEJVA for U.S.\$240 million and

became a party to CHEJVA pursuant to a novation agreement with BHP and the government of Balochistan.

On 26 August 2011, TCC applied for a mining lease, which was rejected by the Licensing Authority on 15 November 2011. Shortly thereafter, on 12 December 2011, TCC instituted proceedings (i) before the International Centre for Settlement of Investment Disputes (**ICSID**) with respect to alleged violations by Pakistan of Australia-Pakistan Bilateral Investment Treaty (**BIT**), 1997 and (ii) before International Chamber of Commerce (**ICC**) for alleged breach by Balochistan of its contractual obligations under CHEJVA. ICSID commenced proceedings on this dispute, but ICC tribunal stayed its proceedings in deference to the ICSID proceedings.

On 6 November 2011, a petition was filed before the Supreme Court of Pakistan asking it to order the government of Balochistan "to refrain from issuing a mining licence in an arbitrary and unlawful manner". On 6 January 2013, the Supreme Court of Pakistan held CHEJVA to be void *ab initio*.

On 12 February 2016, the ICSID tribunal issued a Draft Decision on jurisdiction and liability and held that (i) it has jurisdiction over TCC's claims, (ii) TCC has made an investment in Pakistan and (iii) Pakistan's actions, including the judgment by the Supreme Court of Pakistan, had amounted to expropriation of TCC's investment and Pakistan had breached its BIT obligations. Subsequently, on 12 July 2019, the ICSID tribunal gave an award (**ICSID Award**) of U.S.\$5,894 million plus interest and damages against Pakistan to TCC, against a claim by TCC of U.S.\$11.2 billion in costs, damages and lost profits.

Shortly thereafter, TCC initiated proceedings for the enforcement of the ICSID Award in several jurisdictions, including Australia, the U.S. and the U.K. (British Virgin Islands). Contemporaneously, Pakistan challenged the ICSID Award by initiating proceedings before ICSID for the annulment of the ICSID Award. The ICSID tribunal handling such annulment proceedings imposed a stay on 50 per cent. of the ICSID Award amount, but allowed enforcement proceedings to continue with respect to the remaining half of the ICSID Award amount. At present, Pakistan is contesting the enforcement proceedings and TCC is resisting the annulment of the ICSID Award.

On 10 March 2021, Pakistan made an application to the ICSID for the revision of the ICSID Award on the grounds of certain new facts which, if known at the time of the original proceedings, would have had a material bearing on the findings of the ICSID tribunal. On 16 March 2021, the ICSID Secretary-General registered an application for revision of the ICSID Award filed by Pakistan and notified the parties of the provisional stay of enforcement of 50 per cent. of the ICSID Award (described in the previous paragraph).

Upon registration of the application for revision of the ICSID Award on 16 March 2021, enforcement proceedings in the U.S. and Australia against Pakistan were stayed.

However, in the British Virgin Islands (**BVI**) High Court proceedings, the enforcement action was not stayed pursuant to the ICSID Secretariat order for provisional stay of the ICSID Award.

A four day hearing took place in the BVI from 26 April 2021 to 29 April 2021 to finalise the receivership and injunction orders against Pakistan International Airlines Investment Limited (**PIA**), a company incorporated in the BVI, and its subsidiaries. Despite the fact that PIA did not have any liability to TCC, TCC contended that PIA was effectively an organ of the State of Pakistan and asked the BVI High Court to ignore the separate corporate personality of PIA and to render the assets of its subsidiaries amenable to the execution of the ICSID Award. The Government of Pakistan was also a respondent in this proceeding.

On 25 May 2021, the BVI High Court delivered its judgment and set aside all *ex-parte* orders on receivership and injunction against PIA and its subsidiaries. The court also upheld the Government of

Pakistan's argument on state immunity and service and dismissed all claims against the State of Pakistan.

TCC filed a stay application seeking to suspend the BVI High Court Order. The Court of Appeal dismissed the stay application, but not the appeal itself, which is scheduled to be heard on 24 to 27 January 2022.

A hearing before the ICSID Tribunal on the merits of Pakistan's application is expected in April 2022.

After the announcement of the ICSID Award, ICC tribunal re-initiated its proceedings. Balochistan applied to present certain evidence, but the tribunal denied that application. Balochistan challenged that decision in the UK High Court and the proceedings on this matter are currently ongoing.

OVERVIEW OF PAKISTAN'S ECONOMY

Overview

According to the World Bank, in 2020 Pakistan's economy was the twenty-third largest in the world in terms of GDP measured at purchasing power parity and the forty-third largest in terms of nominal GDP. Pakistan is a rapidly developing country. In PwC's February 2017 report "The World in 2050; The Long View; How will the global economic order change by 2050?", Pakistan is projected to become the 16th largest economy in the world by 2050 (in terms of projected GDP rankings measured at purchasing power parity).

Pakistan's economy is semi-industrialised, with centres of growth along the Indus River, in Karachi and in major urban centres in the Punjab. The most prominent large-scale industries of Pakistan are textiles, cement, food and beverages, petroleum, steel, non-metallic minerals, automobiles, fertiliser, pharmaceuticals, paper, electronics, chemicals, leather, wood, engineering and rubber. Pakistan is one of the major producers of cotton in the world and cotton textile production and apparel manufacturing are Pakistan's largest industries. During the last couple of years, Pakistan has also made progress in strengthening the performance of other industries. These include automobiles, fertilisers, pharmaceuticals, steel, chemicals and cement.

According to the report prepared by a staff team of the IMF for the IMF Board's consideration on 16 April 2020, prior to the COVID-19 pandemic, external imbalances in Pakistan had been significantly reduced and the economy was poised to strengthen. Growth was projected at 2.4 per cent. in fiscal year 2020, accelerating to 3 per cent. in fiscal year 2021. The current account deficit was expected to narrow to 2.2 per cent. of GDP from 4.9 per cent. of GDP in the previous year, with reserves topping U.S.\$12.5 billion (equating to 2.5 months' worth of imports). The fiscal performance was strong until December 2019, with a primary surplus of 0.7 per cent. of GDP. The COVID-19 related shock, however, altered the near-term outlook as the virus began spreading rapidly, stressing a weak health system, and the containment measures started to adversely affect the economy. As a result of the COVID-19 outbreak, in April 2020, it became clear that growth was expected to contract sharply as the economy was adversely affected by demand and supply shocks. Exports and remittances were expected to decline sharply, which together with a temporary loss of market access created an urgent balance of payments need. In addition, public finances were expected to come under significant pressure from the sudden increase in health- and mitigation-related expenditures as well as the decline in tax revenues.

The first case of COVID-19 in Pakistan was reported on 26 February 2020. The national lockdown was imposed by the authorities in the second half of March 2020 and remained in place until May 2020. By 2 June 2020, 76,398 cases with 1,621 deaths were reported in Pakistan. In the middle of the first wave of the COVID-19 outbreak in Pakistan, the Sub-committee of the National Coordination Committee for COVID-19 prepared an impact assessment of COVID-19 on the real sector of the economy, which, according to this assessment, was expected to contract by 0.4 per cent. in fiscal year 2019-20 as compared to an earlier projection of 3.3 per cent. growth. In April 2020, exports and imports decreased (year-on-year) by almost 54 per cent. and 32 per cent, respectively. While the decline in exports largely reflected lower external demand as well as low production activity domestically, the decline in imports most likely reflected low retail and wholesale trade. Similarly, sharp declines in tax collections and sales of automobiles, cement and petroleum products also indicated an across-the-board economic slowdown. In terms of the sectoral breakdown of GDP, the industrial and services sectors were particularly hard hit. In the first wave of COVID-19 (March-July 2020), approximately 37 per cent. of the working population of Pakistan, or 20.6 million people, either lost their jobs or could not work due to the lockdown and another 12 per cent. of the working population, or 6.7 million people, experienced a decrease in their incomes. Sindh was the most affected province, in which the working population was reduced to 23 per cent. during the April to July 2020 period, as compared to 38 per cent. before the outbreak of COVID-19, followed by Punjab with a 14 per cent. decrease in the working population.

The first wave of COVID-19 reached its peak in June 2020, after which the number of reported cases began to decrease. The second wave of COVID-19 commenced in late October 2020 followed by the third wave that commenced in March 2021 and the fourth wave that commenced in July 2021. By 12 January 2022, the number of confirmed cases of COVID-19 in Pakistan reached 1,309,248 (with 1,259,699 recoveries and 28,987 reported deaths from COVID-19).

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

Pakistan's economy has three principal sectors: services (61.7 per cent. of GDP according to provisional data for the fiscal year 2020-21), industrial (19.1 per cent. of GDP according to provisional data for the fiscal year 2020-21) and agricultural (19.2 per cent. of GDP according to provisional data for the fiscal year 2020-21).

Pakistan's principal exports include textiles (including, in particular, knitwear, ready-made garments, bed wear, cotton cloth and cotton yarn), rice and other foodstuffs and other manufactures (such as, for example, leather products, sports goods, surgical goods and medical instruments) and its principal export destinations are the United States, the United Kingdom, China, Germany, the United Arab Emirates, the Netherlands, Afghanistan, Spain, Italy and Bangladesh. According to data from the Pakistan Bureau of Statistics, in the fiscal year 2020-21, Pakistan's exports were U.S.\$25.3 billion. Pakistan's principal imports are from China, the United Arab Emirates, Singapore, the United States and Saudi Arabia. According to data from the Pakistan Bureau of Statistics, in the fiscal year 2020-21, Pakistan's imports were U.S.\$56.4 billion, principally in the form of machinery, petroleum products and petroleum crude, consumer durables, plastics, edible oils and other foodstuffs.

The last five fiscal years have seen an average GDP growth of 3.3 per cent; GDP growth stood at 3.9 per cent. in the fiscal year 2020-21, negative 0.5 per cent. in the fiscal year 2019-20, 2.1 per cent. in the fiscal year 2018-19, 5.5 per cent. in the fiscal year 2017-18 and 5.2 per cent. in the fiscal year 2016-17. The provisional GDP growth rate for fiscal year 2020-21 is estimated at 3.9 per cent, with the highest growth of 4.4 per cent. for services followed by industrial sector (3.6 per cent) and agricultural sector (2.8 per cent).

The growth prior to the fiscal year 2018-19 can be characterised as a consumption-led growth. The high level of borrowing from different sources increased both private and public consumption resulting in higher debt repayment liabilities, which created severe macroeconomic imbalances. Investment did not pick up as higher demand was met primarily through imports leading to an enormous rise in external imbalances. Furthermore, the work on "early harvest" CPEC infrastructure and power projects also led to an increase in development spending as well as in imports. The persistence of large fiscal and current account deficits and associated build-up of public and external debt became the major source of macroeconomic imbalance. The new Government elected in July 2018 faced formidable macroeconomic challenges. The foremost challenge to the economy was the rising aggregate demand without corresponding resources to support it, leading to rising fiscal and external account deficits. To address the issue of severe macroeconomic instability and to put the economy on the path of sustained growth and stability, the Government has introduced a comprehensive set of economic and structural reform measures including the implementation of a market based flexible exchange rate scheme. These reforms helped to support Pakistan's economy during the COVID-19 pandemic and helped it to grow by 3.94 per cent. in the fiscal year 2020-21.

The Government has increased energy tariffs to stop further accumulation of circular debt, reduced imports through regulatory duties and removed certain tax relaxations given in the previous budget in order to stop the deterioration in the primary balance. An agreement has been negotiated with the IMF with respect to the Extended Fund Facility for achieving macroeconomic stability.

As the new fiscal year 2019-20 started, the Pakistani economy started to witness a turnaround that confirmed that the Government has taken appropriate policy actions to address the macroeconomic

imbalances. The stabilisation efforts paid off in terms of sustained adjustment in the current account deficit and the primary deficit. The current account posted a surplus in October 2019 for the first time in 48 months. Similarly, the Government was able to achieve a primary surplus of Rupees 286 billion in the first quarter of 2019-20.

The outbreak of COVID-19 during the second half of the fiscal year 2019-20 brought numerous challenges for the economy that was in transition. Similar to the rest of the world, Pakistan's economy was adversely affected by the COVID-19 outbreak, which resulted in, among other things, decline in domestic and global demand, downturn in tourism and business travel, disruption of trade and production links and supply disruptions. To support the economy, the Government announced a Rupees 1.24 trillion relief package at the end of March 2020. The SBP also introduced various measures, including the cumulative reduction in policy rate since mid-March 2020 by 625 basis point to 7 per cent. (where it remained until 20 September 2021), targeted refinancing schemes to: (a) protect the jobs of people working in the formal segment of the economy; (b) promote investment; and (c) facilitate the development of health-related infrastructure. In addition, some macroprudential measures were also introduced to maintain the financial stability and smooth functioning of the financial system.

In the fiscal year 2020-21, key domestic demand indicators showed significant improvements, particularly with respect to the domestic sale of petroleum products, automobiles and cement, all of which have reached or surpassed the pre-COVID-19 levels. Domestic sales of cement have reached the highest ever level in October 2020. In the fiscal year 2020-21, domestic sales of cement increased by 20.4 per cent. to 48.12 million tons as compared to 39.97 million tons in the fiscal year 2019-20. The sale of automobiles, which were significantly down for a period of 20 months, have witnessed a broad-based recovery on a year-on-year basis since July 2020. During the July 2020 to March 2021 period, the per month electricity consumption increased by 61 gigawatt hours as compared to the July 2019 to March 2020 period per month energy consumption. With respect to the supply-side indicators, the performance of the manufacturing and agriculture sectors also indicates a revival of economic activity. In the fiscal year 2020-21, the overall output of large-scale manufacturing industries (**LSMI**) grew by 14.9 per cent, in large part due to various measures taken by the Government to support the industrial sector. This improvement was due to better performance of some of the key sectors of LSMI, such as automobiles; non-metallic mineral products; chemicals; coke and petroleum products; iron and steel products; textiles; pharmaceuticals and food, beverages and tobacco. Ten out of 15 LSMI recorded positive growth in the fiscal year 2020-21 as compared to the fiscal year 2019-20. In July-October 2021-22, the output of LSMI increased by 3.56 per cent. as compared to July-October 2020-21.

In addition, in the fiscal year 2020-21, major *khariif* crops, except cotton, demonstrated encouraging performance. The increase in agricultural output is expected to further strengthen the overall economic outlook because of the linkages of this sector with agriculture-based and export-oriented businesses.

Major Economic Indicators

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

	2016-17	2017-18	2018-19	2019-20	2020-21
Nominal GDP at market prices (Rupees million)	31,922,303	34,616,302	38,086,232 ⁽¹⁾	41,556,326 ⁽²⁾	47,709,325 ⁽³⁾
GNI at current market prices (Rupees million)	33,665,946	36,462,453	40,636,257 ⁽¹⁾	44,799,050 ⁽²⁾	52,222,614 ⁽³⁾
GDP at constant basic prices of 2005-2006 (Rupees million)	11,696,934	12,344,266	12,600,651 ⁽¹⁾	12,541,834 ⁽²⁾	13,036,381 ⁽³⁾
GDP growth at constant basic prices of 2005-2006 (%)	5.2	5.5	2.1 ⁽¹⁾	(0.5) ⁽²⁾	3.9 ⁽³⁾
Per capita income at factor cost market prices (Rupees)	170,672	181,441	198,565 ⁽¹⁾	215,060 ⁽²⁾	246,414 ⁽³⁾
Per capita GNI (U.S.\$)	1,630	1,652	1,459 ⁽¹⁾	1,361 ⁽²⁾	1,543 ⁽³⁾
Exports (U.S.\$ million) (BoP)	22,003	24,768	24,257	22,536	25,630

	2016-17	2017-18	2018-19	2019-20	2020-21
Imports (U.S.\$ million) (BoP)	48,001	55,671	51,869	43,645	53,818
Balance of trade (U.S.\$ million)	(25,998)	(30,903)	(27,612)	(21,109)	(28,188)
Workers' remittances (U.S.\$ million)	19,351	19,914	21,740	23,132	29,370
Current account balance (U.S.\$ million)	(12,270)	(19,195)	(13,434)	(4,449) ⁽²⁾	(1,916) ⁽³⁾
Current account balance (as % of GDP)	(4.0)	(6.1)	(4.8) ⁽¹⁾	(1.7) ⁽²⁾	(0.6) ⁽³⁾
Overall fiscal deficit (as % of GDP)	(5.8)	(6.5)	(9.0) ⁽¹⁾	(8.1) ⁽²⁾	(7.1) ⁽³⁾
Average inflation (%)	4.8 ⁽⁵⁾	4.7 ⁽⁵⁾	6.8 ⁽⁵⁾	10.7 ⁽⁵⁾	8.9 ⁽⁵⁾
Total investment at current market prices (as % of GDP)	16.2	17.3	15.6 ⁽¹⁾	15.3 ⁽²⁾	15.2 ⁽³⁾
Household final consumption expenditure at current prices (Rupees million)	26,148,647	28,400,347	31,547,687 ⁽¹⁾	32,949,371 ⁽²⁾	38,501,127 ⁽³⁾
National savings (as % of GDP)	12.0	11.3	10.8 ⁽¹⁾	13.6 ⁽²⁾	15.3 ⁽³⁾⁽⁴⁾

(1) Revised.

(2) Final.

(3) Provisional.

(4) For the July 2020 to March 2021 period.

(5) Average inflation for 2016-17, 2017-18, 2018-19, 2019-20 and 2020-21 is calculated on new base (2015-16).

Sources: The State Bank of Pakistan; Finance Division; Pakistan Bureau of Statistics.

Economic Reform Programme and Key Policy Objectives

Comprehensive Economic Recovery Programme

The new Government elected in July 2018 developed a comprehensive economic recovery programme and negotiated a new agreement with the IMF with respect to the Extended Fund Facility for achieving macroeconomic stability to support the Government's economic programme. On 3 July 2019, the IMF Board approved a 39-month extended arrangement under the Extended Fund Facility for Pakistan for an amount of SDR4,268 million (approximately U.S.\$6 billion) to support Pakistan's economic reform programme. This programme aimed to increase tax revenues by 4 to 5 per cent. of GDP to reduce the large budget deficit and ensure debt sustainability while generating the resources needed to expand productive government spending in health, education and social support. Moreover, the Government planned to address other structural challenges through upfront efforts and a well-designed structural reform agenda, including: institution building, aiming to make reforms permanent and avoid the recurrent policy slippages of the past and social protection to strengthen the social safety nets.

Prudent monetary and fiscal policies that were part of the Government's comprehensive economic recovery programme, supported by the IMF's Extended Fund Facility, helped the economy to move along the stabilisation path during the first eight months of fiscal year 2019-20. However, just as early signs of this recovery were beginning to emerge, the global and domestic spread of COVID-19 and ensuing containment measures adversely affected the economy. Manufacturing, retail, transport and trade-related activities were disrupted, causing a severe contraction in real GDP growth.

Emergency Actions to Mitigate the Impact of the COVID-19 Pandemic

The Government has taken a number of emergency actions to contain the severe health risks and economic fall-out resulting from the COVID-19 pandemic. On 24 March 2020, the Prime Minister announced a comprehensive fiscal package structured by the Ministry of Finance that was aimed at supporting growth and protecting those most affected by the containment measures. The package, amounting to Rupees 1,240 billion, contained: (i) sizeable increases in health- and mitigation-related spending; (ii) significant allocations to support daily wage earners and exporters; (iii) funding for free shelter rations; (iv) allocations for subsidised food items and (v) support for small and medium enterprises and agriculture. Of this amount, Rupees 700 billion was spent in the fiscal year 2019-20. The balance of Rupees 540 billion became available to be spent on the relief measures in the fiscal year

2020-21 and Rupees 188 billion were spent on various relief measures in 2020-21. Overall, the estimated impact of the fiscal stimulus package was equivalent to 3.0 per cent. of GDP.

The Government also launched under *Ehsaas* an Emergency Cash Programme aimed at providing immediate financial support to 14.8 million of the most vulnerable families.

At the same time, the SBP arranged multiple emergency meetings of the Monetary Policy Committee (MPC) to take frequent stock of the fast evolving situation and make decisions accordingly. The MPC cut the policy rate by 625 basis points from 17 March 2020 to 25 June 2020, which not only favourably repriced most of the existing loans by the private sector, but also made borrowing viable for firms that would otherwise have been priced out due to high interest rates and weakened repayment capacity. The SBP also rolled out multiple new schemes, including the deferment of principal repayments, subsidised financing for firms to pay salaries to their employees, relaxations in operational criteria for export-related refinance schemes and concessionary refinance facilities for investment projects and hospitals. Businesses have shown a keen interest in these financing schemes and actively used them to plug their cash flow gaps. Put together, the estimated liquidity impact of the SBP's relief measures commenced in March 2020 was equivalent to 5.0 per cent. of GDP.

Key Policies for the Post-COVID Period

Progress on some of the reforms, including the Government's comprehensive economic recovery programme, was temporarily interrupted by the more pressing economic and social concerns emanating from the COVID-19-related lockdowns, which required immediate policy attention. This progress needs to be put back on track, and further reforms need to be initiated, to take the economy on a sustainable growth path. In this context, the following policies are particularly important.

First, a more sustainable solution to correct the country's fiscal vulnerabilities is needed, which requires more than just increasing tax rates. Documentation, reducing informality and harmonising the tax regime are all required to broaden the tax base and reduce reliance on non-tax revenues. Though exemptions and concessions in some sectors were phased out in the fiscal year 2019-20 budget, they still prevail in other sectors and contribute to below-potential revenue collections. Simplification and harmonisation of the tax base and rates for agricultural income tax and sales tax on services are also on the unfinished reforms agenda. To make notable progress in these areas, strong coordination is needed between the federal and the provincial governments. Tax enforcement also needs to be strengthened by tightening risk-based auditing and strengthening data cross-checks through computerised national identity cards, third-party data and/or point of sales information. At the same time, concerted efforts are needed to provide assistance to businesses through simplifying tax filing and accelerating the payment of refunds.

Second, pricing and governance problems in the power sector need to be addressed as these not only represent significant quasi-fiscal risk, but have also dented the competitiveness of the economy. The Government had devised a comprehensive strategy at the start of the fiscal year 2019-20 to improve the viability of the power sector and ensure a sustained decline in accumulated arrears. This strategy included a Circular Debt Reduction Plan, adopting amendments in the NEPRA Act to ensure that tariff revisions and notifications occur automatically, improving collections and subsidy right sizing. Further, infrastructure investment to reduce technical losses, anti-theft drives and upward tariff adjustments during the early months of the fiscal year 2019-20 had helped to stop the growth in arrears. However, the postponement of tariff adjustments for monthly fuel and quarterly capacity payments since January 2020 and payment deferrals from March 2020 onwards diminished the impact of these initial gains. While the implementation of these adjustments would help correct immediate payment shortfalls, the long-term solution to the pricing issues (especially with respect to capacity payments) is more likely to be influenced by how the prospective revisions in the power purchase agreements with the independent power producers roll out. Furthermore, a substantive progress on the distribution companies' governance, the streamlining of tariff adjustments and the upgrade of transmission and distribution

infrastructure are expected to remain key to improving the overall viability of the power sector. Supported by the World Bank and Asian Development Bank, the federal cabinet approved an updated circular debt management plan in March 2021 that reflects in particular: (i) the impact of the timetable for determined but not yet notified electricity price adjustments adopted by the federal cabinet, implementation of the first-stage annual rebasing, notification of the fiscal year 2019-20 fourth quarter quarterly tariff adjustment by October 2021 and amendments to the NEPRA Act and (ii) an alignment of the required subsidies in the fiscal year 2021-22 budget.

Third, Pakistan's progress on the Financial Action Task Force (**FATF**) front is expected to be crucial from the foreign investors' confidence perspective. Several capacity development providers have been engaged to enhance the country's capacity with respect to anti-money laundering and terrorism financing. As noted in the FATF's October 2021 plenary session, Pakistan has largely addressed 26 of 27 action items in the 2018 action plan. The adoption of the required anti-money laundering and countering financing of terrorism (**AML/CFT**)-related amendments in Pakistan's legal framework – especially the Anti-Money Laundering Act and the Anti-Terrorism Act – by Parliament has been a major step forward for the country. Accordingly, various regulators, including the SBP, SECP and self-regulatory bodies have issued their updated AML/CFT regulations. See "*Principal Sectors of the Economy – Services Sector – Financial Services – Anti-Corruption and Anti-Money Laundering*".

Fourth, consistent efforts are needed to consolidate the improvement in the country's financing landscape in order to promote investment, competition, businesses' growth and overall productivity. Creation of a secured transaction registry, licences issued to private credit bureaus, widespread adoption of digital financial services along with the introduction of collateral-free SME Asaan Finance scheme for small and medium enterprises (**SME**) lending are all very useful with respect to improving credit penetration and overall access to finance, especially for small- and medium-sized enterprises. Moreover, the increased focus on low-cost housing and affordable mortgages is expected to help deepen financial penetration and positively affect construction-related industries.

Fiscal Policy

The Government's fiscal policies remain centred on an ambitious revenue mobilisation strategy to ensure debt sustainability while creating space for social and development spending. As the Government overcomes the severe setback from the COVID-19 pandemic shock, it remains committed to broadening the tax base and gradually increasing the tax-to-GDP ratio by more than three per cent. of GDP through fiscal year 2022-23, with a cumulative fiscal primary adjustment of 3.3 per cent. of GDP. As these efforts are expected to bring results over the medium term, the Government has also sought to create fiscal space in the near term for much-needed priority spending on health, education, infrastructure and targeted programmes for social protection. This includes taking action to reduce the debt service, including by requesting debt relief under the Debt Service Suspension Initiative (**DSSI**), supported by the G20 and Paris Club.

The Government will seek to ensure the highest levels of quality and transparency in all COVID-19-related spending and programmes in line with international best practices. The enacted emergency measures are expected to remain targeted and temporary and not result in permanent distortions of the overall fiscal policy. Regarding the temporary construction programme, which the Government extended until end-December 2021, the Government will seek to ensure full compliance with FATF principles on voluntary tax compliance schemes to mitigate potential money laundering and terrorist financing risks and monitor financial institutions' implementation of their AML/CFT obligations on financial transactions related to the investments in the construction sector. In this context, the Government reaffirms its commitment to both not granting further tax amnesties and avoiding the practice of issuing new preferential tax treatments or exemptions.

The general government account posted a primary deficit of 1.8 per cent. of GDP in the fiscal year 2019-20, marking a 1.8 per cent. of GDP improvement compared to the fiscal year 2018-19. This

reflected the Government's fiscal consolidation efforts undertaken during the first nine months of the fiscal year 2019-20, capacity to manage spending, over-performance on sales tax and customs duties collection in June 2020, and higher dividend transfers by the SBP. These efforts have had positive carryover effects in the first half of the fiscal year 2020-21, when the general government registered a primary surplus of 0.7 per cent. of GDP (including the provincial surplus of 0.6 per cent. of GDP), about 0.8 per cent. of GDP better than projected. Tax revenues, net of refunds grew by 12 per cent. year-on-year, while primary spending was controlled, allowing the Government to contain the overall fiscal deficit at 2.5 per cent. of GDP.

As the first step of the Government's multi-year tax policy reform agenda, it has adopted a comprehensive reform of the Government's corporate income tax. The Government has substantially modernised its corporate income tax and streamlined all tax incentives, in consultation with IMF staff, with a view to simplifying the system and eliminating the existing distortionary measures. These include tax credits, accelerated deductions, exempt income, reduced tax rates and tax liability reductions.

In the second step of the Government tax policy reform efforts and to further support the Government's fiscal objectives, the Government introduced a general sales tax (**GST**) reform with the fiscal year 2021-22 budget and the Finance (Supplementary) Act, 2022 adopted by National Assembly on 13 January 2022, which is expected to yield an estimated 0.7 per cent. of GDP of additional revenue on an annualised basis.

In the next step of the Government tax policy reform efforts, the Government is expected to introduce a personal income tax (**PIT**) reform with the fiscal year 2022-23 budget, yielding an estimated 0.4 per cent. of GDP of additional revenue on an annualised basis. The Government recognises that this is crucial for broadening the tax base, the Government's key strategic fiscal objective, reducing informality and simplifying and modernising the tax system.

The purpose of this reform is to simplify and increase PIT progressivity. In line with IMF recommendations, the Government will seek to: (i) change the existing tax rate structure by reducing the number of rates and income tax brackets from eleven to five and decreasing the size of the income slabs, with a view to simplifying the system and increasing progressivity; (ii) reduce tax credits and allowances by 50 per cent. (except for Zakat and those provided for disabled and senior citizens); (iii) introduce special tax procedures for very small taxpayers aimed at preventing further tax base erosion and facilitating the formalisation of the economy; and (iv) adopt a long-term strategy to reduce labour informality and to bring additional taxpayers into the PIT net.

The Government is also accelerating the implementation of broad-based fiscal structural reforms. It is pressing ahead with tax administration and public finance management (**PFM**) reforms to support the Government's public finances. More specifically:

- *PFM reforms.* While the Government has already advanced on some elements of its PFM reform strategy (including the establishment of a macro-fiscal unit in the Ministry of Finance for proper identification and monitoring of macroeconomic and specific fiscal risks), more needs to be done. In line with the Public Finance Management Act, the Government presented the mid-year budget review to the National Assembly in February 2020 and February 2021. Going forward, the Government plans to intensify its efforts to establish a treasury single account (**TSA**). In September 2020, the Government prepared and shared the accounts level data with public sector entities for arranging closure of the accounts and transfer of funds to TSA. Phase one of the TSA system has already been introduced in all of the federal government's ministries and divisions. Consultative process for phase two of TSA, which will be applicable to all other federal government controlled entities or organisations has been initiated by the Finance Division in consultation with the SBP. It is expected that the start of the implementation of phase two of TSA may take about a year.

- *Tax administration.* The Government recognises that for tax policy measures to be successful and to generate the expected revenues, it needs to step up tax administration reforms and enforcement. To this end, the Government expects to focus on: (i) introducing a centralised, risk-based compliance function; (ii) modernising the IT system and further advancing automation; (iii) actively using third-party data, strengthening data cross-checking and analysis; (iv) simplifying registration and filing processes; (v) modernising audit practices and taking a more targeted audit approach; and (vi) further strengthening the large taxpayer approach and expanding the activities of the Large Taxpayer Office. In addition, the Government expects to continue the process of sales tax harmonisation and to implement the single return and taxpayer portal. The procurement procedures related to the track-and-trace licenses to address the smuggling of tobacco products have been declared invalid by the Islamabad High Court and the roll-out of the track-and-trace system for tobacco products was suspended. Nonetheless, and building on the lessons from this experience, the Government is seeking to reintroduce and roll out the track-and-trace systems for tobacco products and will consider its introduction for other items subject to high levels of smuggling, including sugar, drinks and cement. To support GST harmonisation, the Government expects to establish the single filing portal by September 2024.

The Government has taken a number of key steps to revamp its debt management framework and maintain debt sustainability. Key measures include:

- *Securing debt relief under the DSSI* through which the Government has reduced Pakistan's external debt service by an estimated U.S.\$3.7 billion for the period from May 2020 to December 2021 over and above the assurances currently in place under the IMF EFF.
- *Lengthening the maturity profile of domestic debt.* Since fiscal year 2018-19, the Government's domestic borrowing strategy has been tilted toward issuing medium- and long-term debt instruments, thereby reducing the Government's reliance on short-term debt issuance. As a result, the average time to maturity of domestic debt held by the market (i.e., excluding the debt held by the central bank) has increased from 2.0 years to 2.6 years over a period of 18 months (July 2019 – December 2020). The Government intends to continue with its strategy subject to maintaining stability in the financial markets and keeping its borrowing costs within reasonable limits.
- *Updating and implementing the Government's Medium-Term Debt Strategy*, which, among other things, explicitly targets a gross financing needs figure lower than 24 per cent. of GDP by fiscal year 2022-23, down from more than 30 per cent. of GDP in fiscal year 2019-20. To effectively implement this strategy, a number of steps have been taken including the: (i) reintroduction of 15-, 20-, and 30-year fixed rate Pakistan Investment Bonds (**PIBs**); (ii) reintroduction of *Shari'ah*-compliant sukuk of longer tenors (five years); introduction of new long-term instruments (including three- and five-year floating rate PIBs); and (iv) imposition of a ban on institutional investments in National Savings Schemes with effect from 1 July 2020 in order to enhance institutional participation in competitive primary and secondary markets of long-term debt. This strategy is already producing favourable results: between April and December 2020 more than Rupees 100 billion was raised through 15–20 year instruments and Rupees 562 billion was raised from sukuk.
- *Establishing a debt management office (DMO)* to strengthen the Government's debt management strategy. In line with World Bank and IMF recommendations, the Government has established the proper rules of business, describing the activities and organisation of the DMO as part of the process of amending the Fiscal Responsibility and Debt Limitation Act (2005). The draft bill for requisite amendments was submitted to the Federal Cabinet Committee on Disposal of Legislative Cases in February 2021 and was subsequently submitted

to the National Assembly for its approval. The Fiscal Responsibility and Debt Limitation Act amendment bill is currently expected to be approved by Parliament by the end of March 2022. In the meantime, the Finance Division has assigned additional functions to the existing Debt Policy and Coordination Office and the Government approved the rules which will allow it to hire additional staff commensurate with the responsibilities. The setup of the front office/middle office/back office of the new DMO has been accomplished through a provisional notification. The Debt Office is currently executing most of the responsibilities assigned to the front office/middle office/back office of the new DMO through this notification. This arrangement is expected to be formalised after the approval of the Fiscal Responsibility and Debt Limitation Act amendment bill expected by the end of March 2022. The Government is committed to completing the recruitment of staff by the end of March 2022. Migration of relevant functions to DMO from other parts of government agencies is expected to be formally completed once the Fiscal Responsibility and Debt Limitation Act amendment bill is approved by Parliament. Moreover, the Government is enhancing cooperation with other government units, the Economic Affairs Division in particular, to ensure accurate compilation and reporting of debt-related statistics, starting with the establishment of a new Working Group in February 2021.

Monetary and Exchange Policies

The Government's policies remain centred on entrenching monetary and financial stability by maintaining a market-determined exchange rate, lowering inflation and building foreign exchange reserves. Specific actions include:

- *Continued commitment to a market-determined exchange rate.* The exchange rate has served as an essential buffer protecting economic activity during a period of heightened external volatility. It depreciated by around 8 per cent. against the U.S. dollar between early-March and end-June 2020 as the COVID-19-related crisis unfolded and appreciated by 6.7 per cent. between 30 June 2020 and 30 June 2021 when the economy started to recover. In this context, the SBP's interventions remain guided by market conditions and the objective of rebuilding reserve buffers. Foreign exchange interventions are limited to preventing disorderly market conditions, while not suppressing any underlying trend. As a result, foreign exchange reserves buffers were rebuilt by U.S.\$7 billion and the net short swap/forward foreign exchange position was scaled back by more than U.S.\$2 billion in the fiscal year 2019-20. Moreover, this trend has continued, with reserve buffers increasing by U.S.\$6 billion during the fiscal year 2020-21 and the net short swap/forward foreign exchange position being further reduced by U.S.\$1 billion.
- *Appropriate monetary policy stance.* The SBP was proactive in responding to the initial COVID-19-related shock, cutting the policy rate by 625 basis points cumulatively to seven per cent. by end-June 2020 on the back of weakening domestic demand conditions and a quick deceleration of inflation. Until September 2021, the monetary policy stance remained accommodative to support the economic recovery. However, the Government continued to monitor supply side driven inflation from some products and, on 20 September 2021, policy rate was raised by 25 basis points to 7.25 per cent. by the MPC. Growing confidence among policymakers that the recovery from the last year's recession had gained significant traction and desire to shore up the value of the Rupee, which fell to record lows against the U.S. dollar around mid-September 2021, prompted the SBP to raise the policy rate for the first time since June 2020. On 19 November 2021, the MPC decided to raise the policy rate by 150 basis points to 8.75 per cent. This reflected the MPC's view that since the last meeting in September 2021, risks related to inflation and the balance of payments have increased while the outlook for growth has continued to improve. On 14 December 2021, the MPC raised the policy rate by 100 basis points to 9.75 per cent. Monetary policy decisions will continue to be guided by the

primary goal of safeguarding price stability to ensure the IMF EFF's monetary targets are met and guide inflation to the Government's medium-term objective.

To support the economic recovery and promote housing and construction sector in line with the Government's vision, in July 2020, the SBP assigned mandatory targets of housing and construction finance to banks. As per these targets, banks are expected to increase their housing and construction finance to at least five per cent. of their domestic private sector advances by December 2021. To incentivise banks to meet the targets, the SBP has announced that banks achieving their quarterly targets will be permitted to lower their cash reserve requirements in the subsequent quarter. Credit to housing and construction sector increased to Rupees 257 billion as of 30 June 2021 from Rupees 148 billion as of June 30, 2020. The Government sees this as a temporary measure supporting private sector lending, which is low compared to peer countries and is hindering private sector growth, but recognise that further steps to improve the housing and construction sector – including an improved bankruptcy regime, more comprehensive property registry system and the establishment of the Real Estate Regulatory Authority (RERA) – are necessary. In this context, the Supreme Court decision to vacate the stay order against the foreclosure law, the automation of rural land records by the government of Punjab and the constitution of a high-level inter-provincial committee to resolve issues related to housing and construction are some positive developments the Government has achieved since November 2019. Furthermore, to promote ownership through banking channel, the Government has announced Mera Pakistan Mera Ghar (MPMG) mark-up subsidy scheme. Under this scheme, subsidised financing is being provided to individuals who currently do not own a house to purchase completed housing units or construct their new houses. As of 31 December 2021, banks have received applications for the total amount of Rupees 276 billion, out of which loans in the amount of Rupees 177 billion have been approved by that date.

The Government is committed to phasing out the temporary refinancing schemes introduced as part of the emergency COVID-19-related response as the crisis abates. In the context of supporting financial markets and businesses during the COVID-19-related crisis, the SBP has substantially expanded its refinancing schemes, introducing three new facilities and expanding the coverage of one existing facility. Since the introduction of COVID-19-related schemes in March 2020, the SBP has allocated approximately Rupees 745 billion to banks by the end of August 2021, of which Rupees 487 billion was disbursed by 31 December 2021. In line with the SBP's primary objective of price stability to be enshrined in the SBP Act, the Government will seek to review the terms of the temporary facilities published in the SBP circulars depending on the evolving COVID-19 situation.

The Government is making good progress toward strengthening the SBP's autonomy, governance and mandate. The Government has worked closely with IMF staff in the preparation of amendments to the SBP Act to address existing gaps. The amendments aim to: (i) establish domestic price stability as the primary objective, with financial stability and growth as secondary objectives; (ii) clearly define the SBP's functions to help achieve these objectives; (iii) strengthen the SBP's financial autonomy, including through statutory mechanisms for sufficient recapitalisation and profit retention; (iv) prohibit the extension of direct credits or guarantees to the general government; (v) establish the statutory underpinnings for audits; (vi) secure stronger protection of the personal autonomy of senior officials; (vii) further strengthen collegial decision making at the executive management level; (viii) provide stronger oversight by the board of directors of the SBP; and (ix) improve SBP's accountability regarding the conduct of its monetary policy and the achievement of its objectives. The Ministry of Finance submitted the amendments to Parliament in March 2021 and they are currently being considered by Parliament.

The Government is closely monitoring the health of the financial sector to safeguard its resilience. The Government intended to ensure that the regulatory forbearance and relaxation of lending standards introduced as part of the COVID-19-related response do not weaken the sector's resilience as the Government also intended to return to the existing loan classification, provisioning rules and pre-

COVID-19 lending standards once the situation normalises. These special regulatory relaxations with respect to the deferment of loan payment and classification and provisioning rules were time bound and all of them expired in 2021. Further to these efforts, the Government remains engaged with two non-systemic private sector banks and one public sector bank to ensure compliance with the minimum capital requirements. Work on ensuring the compliance with the capital requirements of the two non-systemic private sector banks is continuing. The public sector bank is undergoing a privatisation process that is expected to be completed in the next several months. In case the privatisation is not successful, the Government will consider other resolution options, including liquidation. The Government also recognises the need to address gaps in its bank resolution and crisis management frameworks, including the deposit insurance scheme, and with the support of IMF technical assistance the Government plans to strengthen and modernise them.

The Government is committed to the completion of the FATF Action Plan. To this end, the Government has engaged several capacity development providers, including the IMF, and the Government has made significant progress toward completion of its Action Plan. By June 2021, satisfactory progress has been made across 26 of the 27 action items in the 2018 action plan, which was appreciated during the FATF October 2021 plenary meeting. In light of the efforts to build capacity and the challenges presented by the COVID-19 pandemic, the Government needs additional time to demonstrate effectiveness of its AML/CFT regime towards a substantial level of effectiveness in line with FATF Action Plan. In parallel, the Government continues to make efforts to address the deficiencies identified by the 2019 Mutual Evaluation Report of the Asia Pacific Group (APG) and implement all its recommendations. The Government has enacted amendments in 14 laws coupled with issuance of rules, regulations and guidelines to address the technical compliance requirements and align the regulatory regime with the FATF requirements. An internal roadmap has been developed to implement the Mutual Evaluation Report recommended actions. Dedicated teams have also been formed for implementing the recommended actions. The actions have resulted in significant improvement in Pakistan's rating for technical compliance with 35 recommendations by August 2021. These measures have resulted in rating upgrades on 25 recommendations, leading to 35 out of 40 recommendations being rated as "compliant" or "largely compliant". Pakistan is now in the top tier of countries that have achieved a rating of compliant/largely compliant for over 30 of the 40 FATF recommendations. In October 2021, the FATF asked Pakistan to continue to work to address its other strategically important anti-money laundering/counter financing of terrorism deficiencies, in particular by: (i) providing evidence that it actively seeks to enhance the impact of sanctions beyond its jurisdiction by nominating additional individuals and entities for designation at the UN; and (ii) demonstrating an increase in money laundering investigations and prosecutions and that proceeds of crime continue to be restrained and confiscated in line with Pakistan's risk profile, including working with foreign counterparts to trace, freeze and confiscate assets.

The Government is easing foreign exchange restrictions and administrative measures as conditions allow. The Government has refrained from introducing or intensifying exchange restrictions, multiple currency practices or import restrictions for balance of payment measures. Moreover, the Government remains committed to phase out the existing measures as the balance of payments stabilises and to eliminate them by the end of the IMF EFF programme. In this respect, the Government has taken additional steps to relax existing measures:

- In January 2020, the Government relaxed existing measures permitting: (i) banks to make advance payments up to U.S.\$10,000 per invoice on behalf of manufacturing/industrial companies and commercial importers (which was already allowed for manufacturing companies in November 2019) for the import of raw materials, spare parts and machinery ultimately used by manufacturing and industrial companies; and (ii) banks to make advance payment against irrevocable letter of credit up to 100 per cent. of the value of the letter of credit for the import of plants, machinery, spare parts and raw materials on behalf of manufacturing companies for their own use.

- In March 2020, banks were allowed to make advance payments up to U.S.\$25,000 per invoice on behalf of manufacturing, industrial companies and commercial importers for the import of raw materials, spare parts and machinery for ultimate use by manufacturing and industrial companies.
- In March 2020, in the context of combatting COVID-19, the Government allowed all federal and provincial government departments, public and private sector hospitals, charitable organisations and commercial importers to make import advance payment, without limit, for the import of medical equipment, medicine and other ancillary items for the treatment of COVID-19.
- In September 2020, the Government took an additional step to ease restrictions in the context of the economic recovery post-COVID-19 crisis: the 100 per cent. cash margin requirement on 106 harmonised system codes items relating to the import of certain raw materials to support manufacturing and industrial sectors were removed. However, as current account deficit increased significantly in the first quarter of the fiscal year 2021-2022, the SBP decided to impose 100 per cent. cash margin requirements on imports of 114 items in September 2021. This measure is expected to help to discourage imports of these items and thus support the balance of payments. Prior to that, the SBP revised prudential regulations for consumer financing prohibiting financing for imported vehicles that had contributed to the widening of the current account deficit.

Energy Sector Policies

The Government recognises that the power sector has reached a critical situation. During 2020, the Government introduced policies aimed at providing relief to power sector consumers from the economic slowdown, rising inflation and, more importantly, from the impact of the COVID-19-related shock. Among these measures, the Government (i) paused the adjustments of tariffs for monthly fuel and quarterly capacity payments since January 2020, including the second quarter of the fiscal year 2019-20 adjustment and (ii) introduced payment deferrals beginning in March 2020 to provide relief to low-end consumers. These policies, together with a significant decline in consumer demand from the COVID-19-related containment measures, contributed to a significant accumulation of arrears, erasing the gains the Government had achieved in improving sector performance through the implementation of the circular debt management plan (CDMP). As a result, Rupees 538 billion of arrears were accumulated during the fiscal year 2019-20, significantly higher than projected under the CDMP and bringing the total stock of arrears to Rupees 2,150 billion as at 30 June 2020. An additional Rupees 130 billion were accumulated during the fiscal year 2020-21 and the total stock of circular debt amounted to Rupees 2,280 billion as at 30 June 2021.

In response, the Government has reinforced its efforts to ensure power sector viability. The Government already took some important initial steps to contain the accumulation of power sector arrears, also reflecting the intense collaboration with the technical experts from the World Bank and Asian Development Bank:

- *NEPRA Act amendments.* Adopted by Parliament in March 2021, these: (i) give the regulator the power to determine and notify quarterly tariffs; (ii) help to ensure timely submissions of quarterly and annual petitions by the distribution companies (DISCOs); (iii) eliminate the gap between the regular annual tariff determination and notification by the Government; and (iv) reinstate the power of the Government to levy surcharges over and above the system's revenue requirements under the NEPRA Act.
- *Power prices.* The cabinet has approved a timetable for the determined, but not yet notified electricity price adjustments. This timetable includes a two-staged implementation of the fiscal year 2020-21 annual rebasing, determined as a 3.34 Rupees/kWh increase in the base tariff. To

mitigate the impact on the consumer and economic recovery in the context of COVID-19, the Government has notified the first increase of 1.95 Rupees/kWh in February 2021 and completed the notification of the fiscal year 2019-20 second quarter and third quarter quarterly tariff adjustments in October 2020, along with accompanying measures aimed at attenuating the social and sectoral impacts and strengthening reform traction. These included energy subsidy reform steps aimed at reducing the regressive structure of the tariff structure, which include a more expanded definition of the lifeline tariff as a relief for the vulnerable and the determination of the subsidised tariff slab based on households' maximum usage from the previous 12-months (rather than monthly) consumption. Furthermore, the Government launched a public outreach campaign to explain the reform need and strategy to consumers. In June 2021, the Government decreased its Central Power Purchasing Agency Guarantee Limited payables to independent power producers through a payment of Rupees 89.9 billion. The Government expects to be able to pay another Rupees 344.8 billion in the fiscal year 2021-22.

- *Medium-term measures on the cost side.* In mid-August 2020, the Government signed a memorandum of understanding with a group of private independent power producers (**IPPs**) to lower, and convert into domestic currency, the guaranteed return on equity as well as sharing excess returns on operational and maintenance expenses from contractual efficiencies. This memorandum of understanding was already converted into binding contractual agreements with 32 IPPs and negotiations with the remaining IPPs with respect to converting this memorandum of understanding into binding contractual agreements are continuing. With respect to the Government's outstanding arrears to IPPs, the Government settled these arrears in two tranches, each one-third in cash and two-thirds in five to 10-year debt instruments. Rupees 90 billion was paid to 20 IPPs as their first tranche payment in June 2021 and their second tranche payment (in the amount of Rupees 134 billion) was made on 29 November 2021. The Government has also reduced the guaranteed return on equity for all public sector power plants from 15 per cent. to 10 per cent. and their amended tariffs have been notified with such reduced return on equity.
- *Recalibrating the CDMP.* Supported by the World Bank and Asian Development Bank, the federal cabinet approved an updated CDMP in March 2021 that reflects in particular: (i) the impact of the timetable for determined but not yet notified electricity price adjustments adopted by the federal cabinet, implementation of the first-stage annual rebasing, notification of the fiscal year 2019-20 fourth quarter quarterly tariff adjustment by October 2021 and amendments to the NEPRA Act and (ii) an alignment of the required subsidies in the fiscal year 2021-22 budget. The CDMP remains ambitious in the envisaged measures to deliver a sustained decline in the accumulation of power sector arrears. Moreover, the CDMP incorporates savings that are envisaged in the later part of the plan from measures to reduce transmission and distribution losses and the cost of electricity generation (such as the coming-on-stream of cheaper renewable energy production, impact of renegotiated power purchasing arrangements and improvements in transmission and distribution losses).

Going forward, the Government is expected to take additional measures that are crucial for halting the accumulation of arrears:

- *Updating power tariffs.* While the enactment of the NEPRA Act amendments is expected to ensure the automaticity of quarterly tariff adjustments (beyond the already automatic monthly fuel price adjustments), the Government will seek to ensure that it follows through on time with the remaining annual rebasing step-increase. The Government is also expected to finalise the cross-subsidy reform in the fiscal year 2021-22. At the same time, the Government is expected to renew its public awareness campaign.
- *Streamlining of tariff adjustments.* Preserving the principle embedded in the CDMP of automaticity of tariff adjustments and in line with the plan's declining path of accumulation of

new arrears, the Government is streamlining the process of power tariff adjustments to increase its predictability. The new tariff adjustment plan, designed in consultation with the Government's international partners, is expected to consolidate tariff adjustments to significantly reduce the number of end-consumer tariff adjustments in the fiscal year 2021-22 while delivering the required revenue for the system. In particular, the fuel price adjustment, the quarterly adjustment for capacity payments and the annual rebasing of tariffs are expected to continue to take place, but their timing will be adjusted to alleviate consumers from the impact of continued tariff adjustments. Crucially, the Government will seek to ensure that the consolidation of tariff adjustments will not generate any new accumulation of power sector arrears.

- *Improving the targeting of subsidies.* The Government recognises that the existing system of subsidies, covering 99 per cent. of domestic users, represents a significant budgetary drain and, through cross-subsidies, implies elevated tariffs for the narrow group of unsubsidised users. For the fiscal year 2021-22 budget and based on the first steps to redesign the tariff structure, the Government plans to finalise, with the support of the World Bank, a comprehensive subsidy reform that covers a restructuring of the tariff and measures and improves targeting (including to households and the agricultural sector), while protecting the most vulnerable.
- *Strengthening DISCOs governance.* The Government has initiated the process of appointing board members and CEOs in all DISCOs under competitive and transparent procedures. Moreover, the Government is exploring options for their phased privatisation.

The Government is advancing its strategy to reduce the stock of power sector arrears. The stock of power sector arrears held by the Power Holding Private Limited (**PHPL**) stood at approximately Rupees 930 billion as of 30 June 2021, representing a significant quasi-fiscal risk. The Government continues to work with international partners on the design of a strategy to settle the stock of arrears in PHPL, while limiting the impact on government finances and subject to adequate progress in implementing the CDMP. In this context, the Economic Coordination Committee approved the conversion of PHPL debt into public debt over a 10-year period. PHPL debt in the amount of Rupees 70 billion was converted into public debt by the end of the fiscal year 2020-21, with subsequent transfers continuing to take place under a semi-annual schedule and seeking to transfer the most expensive debt first and subject to satisfactory implementation of the revised CDMP.

The Government is taking steps to advance reforms in the gas sector. In view of the sector's high stock of arrears (as at 30 June 2021, SNGPL reported arrears of Rupees 301.4 billion and SSGPL reported arrears of Rupees 252.3 billion), the Government is taking crucial measures to improve the sector's performance:

- *Timely updates of tariffs.* The Government revised gas sales prices upwards by September 2020 to fully reflect the projected annual revenue requirement of both Sui companies for the fiscal year 2020-21 and a part of Sui Sothern arrears.
- *Amending the OGRA Act.* The Council of Common Interests has adopted amendments to the OGRA Act aimed at ensuring that recovery requirements are met in a timely manner in December 2019. The draft bill for requisite enactment has been submitted to the federal cabinet's Committee on Disposal of Legislative Cases in April 2020. The bill was submitted to National Assembly in August 2021.
- *Reducing unaccounted for gas losses (UFG).* The two gas companies are working to reduce UFG losses based on the reduction plans approved by the federal cabinet. The Government published the first annual monitoring report covering the fiscal year 2019-20 in January 2021 and the first quarterly report covering the first quarter of the fiscal year 2020-21 in February 2021. The Government expects to continue to publish the reports on a quarterly basis which,

inter alia, include: (i) an assessment of progress reducing UFGs against relevant benchmarks; (ii) a quantitative analysis of the impact of the various initiatives and measures; and (iii) an assessment of contingency measures to address areas of weakness. The report for the full fiscal year 2021-22 has also been published.

Structural Policies and Investing in the Green Recovery

Structural reforms are a key pillar of the Government's economic programme. The Government is striving to create an enabling environment for investment and job creation, strengthen the productivity of state-owned enterprises (SOEs) and enhance trust in Government.

The Government is committed to improving SOEs' governance, transparency and efficiency. Specific actions to achieve these goals include:

- *Advancing privatisation.* Against the backdrop of the COVID-19 pandemic and economic uncertainty, the Government has not been able to finalise the privatisation of two LNG power plants by the end of the fiscal year 2019-20 as previously planned. The Government now expects to complete the process by the end of February 2022, with proceeds still to be channelled to debt reduction and poverty programmes. In addition, the Government is also assessing options with respect to divesting Pakistan International Airlines' (PIA) non-core assets (two hotel properties).
- *Increasing transparency.* The Government has completed and published the audits of PIA and Pakistan Steel Mills in January 2020 and July 2020, respectively. The Auditor General of Pakistan completed a special audit of Pakistan Railroads in March 2020 based on the fiscal year 2018-19 financial statements. The Government also completed an audit of the Utility Stores Corporation based on its fiscal year 2019-20 financial statements, which was approved by its board of directors in September 2021 and by its shareholders in December 2021.
- *Strengthening the monitoring of SOEs.* The Government completed, with support from the World Bank, and published a report with respect to plans for SOEs in March 2021. This stocktaking and analysis of Pakistan's SOE portfolio resulted in a division of SOEs into: (i) those to be maintained under state management; (ii) those to be privatised; or (iii) those to be liquidated. The next step will be the execution of the action plan included in the report.
- *Enhancing the SOE legal and regulatory framework.* Building on IMF-provided technical assistance and in cooperation with international partners, the Government prepared a new SOE law and submitted it to Parliament in March 2021. The Government currently expects it to be adopted by the end of May 2022. Once enacted, the new SOE law is expected to, *inter alia*, (i) define the rationale for state ownership; (ii) ensure that SOE operations are grounded on commercial footing, including by defining what constitutes a commercial SOE; and (iii) regulate oversight and ownership arrangements. Thereafter, the Government expects to focus on: (i) the adoption by the federal cabinet of an SOE ownership policy to help to operationalise the principles of the SOE law (once enacted) into a policy that clarifies ownership arrangements and the division of roles within the federal government; (ii) the submission to Parliament of amendments to laws on four SOEs, which were chosen in November 2020 based on their debt levels, to help to ensure that the scope of the new SOE law brings governance changes to statutory enterprises; and (iii) the operationalisation of a Central Monitoring Unit within the Ministry of Finance to centralise SOE monitoring functions and provide better analysis at the aggregate level.

Other comprehensive structural reforms must be accelerated to improve competitiveness and business environment. These reforms are crucial for raising medium-term growth and supporting job creation. Going forward, the Government expects to:

- *Continue to implement the approved national tariff policy*, based on time-bound strategic, newly-established and greenfield industry protection. In line with its revenue mobilisation strategy, the Government expects to rationalise tariffs to boost competitiveness for "Made in Pakistan" products, including phasing out tariffs on capital goods, intermediate products and raw materials.
- *Take steps to improve business environment*. In particular, the Government plans to: (i) simplify procedures to start a business and eliminate unnecessary regulations, including the introduction of one portal for all business registrations and integration of federal and provincial entities involved in starting a business; (ii) streamline the approval process for foreign direct investment; (iii) improve trading across borders by reducing customs-related processing time and reducing hours to prepare import/export documentation; (iv) simplify and harmonise the process of paying taxes through the introduction of a simple and fully automated regime for paying taxes, contributions and fees; and (v) launch a communication drive to disseminate information regarding the reforms undertaken.
- *Step up implementation of the Government's recently launched National Electric Vehicle Policy (NEVP) (2020-2025)*. The main objectives of this policy are: (i) mitigating negative aspects of climate change through the reduction in CO₂ emissions; (ii) strengthening the Government's external position by reducing the oil import bill; and (iii) creating a pivot toward industrial growth and generating employment through new investments and the introduction of new technologies. The NEVP targets electric cars to reach 30 per cent. of new sales by 2030 as well as two- and three-wheelers and electric buses to reach 50 per cent. of new sales. This policy provides the framework that is expected to bring the necessary transformation in a planned and phased manner, while having a positive socio-economic impact in terms of industrial growth, employment generation and improved environment for future generations.

Measures to strengthen governance and the control of corruption remain key for the Government. The Government's priorities include:

- *Strengthening the effectiveness of anti-corruption institutions*. The Government plans to establish a robust asset declaration system with a focus on high-level public officials, which is comprehensive in scope (e.g., covers assets that are owned beneficially or located abroad), filed with a central federal agency, electronically available to the public and searchable and appropriately and effectively verified. The Government is undertaking the second review cycle under the United Nations Convention against Corruption (UNCAC) implementation mechanism and is expected to publish the full report, including the findings, analysis and recommendations for improving the anti-corruption framework. A task force with inputs from reputable international experts and civil society organisations is expected to complete a review of the institutional framework of the Government's anti-corruption institutions by the end of December 2021 to enhance their independence and effectiveness in investigating and prosecuting corruption cases, with proposals for legislative amendments as appropriate. With the assistance from capacity development providers, the Government is also expected to continue to upgrade the capacities of law enforcement agencies such as the Federal Investigation Agency, National Accountability Bureau (the NAB) and provincial Counter Terrorism Departments for financial investigations through training. The Mutual Legal Assistance Act of 2020 also designated the NAB as a recipient and requesting authority for international cooperation in the field of anti-corruption. The NAB is engaging with several foreign law enforcement authorities to secure memoranda of understanding for information sharing. Efforts continue to be pursued in identifying and recovering stolen assets located abroad.

- *Enhancing the use of anti-money laundering tools to support anti-corruption efforts.* The Government continues to support financial institutions and other reporting institutions in improving their capacities to identify politically exposed persons and apply enhanced due diligence measures. The Government is conducting further outreach and continues to enhance risk-based supervision of financial institutions and other reporting institutions to improve the quality of suspicious transaction reporting, particularly on corruption activities. The Government is committed to enhancing the effectiveness of the Financial Monitoring Unit (Pakistan's financial intelligence unit) by ensuring its fiscal autonomy and providing sufficient human and financial resources to improve the dissemination of financial intelligence to support corruption investigations.

Poverty Reduction and Social Protection

The Government has swiftly provided significant emergency cash support to the most vulnerable in response to the COVID-19-related shock. On 1 April 2020, the Prime Minister launched the *Ehsaas* Emergency Cash (EEC) programme through the Benazir Income Support Programme (BISP) to provide immediate one-time cash assistance (Rupees 12,000 per beneficiary) to an eligible 17 million families – covering about one-half of all families and the two lowest income quintiles – identified jointly with the provinces and supported by a far-reaching communication campaign. Upon successful completion of the EEC programme at the end of September 2020, the Government reverted its post-crisis social support to regular BISP beneficiaries in October 2020, while it seeks to permanently broaden the scope of coverage (see below). In reaction to economic hardship caused by the third wave of COVID-19, the Government launched the second phase of EEC on 16 June 2021 to provide a one-time cash assistance (Rupees 12,000 per beneficiary) to eligible four million families (other than regular BISP beneficiaries). By 30 June 2021, the Government reached over 1.39 million families through this programme and disbursed Rupees 16.7 billion.

Going forward, the Government is intensifying its efforts in expanding social safety nets and fostering human development. Pakistan has fallen behind regional peers in the implementation of the Sustainable Development Goals, especially in the areas of health, education and gender equality. The Government has already adopted significant measures to correct these shortcomings, including by: (i) approving a significant increase in budgetary allocations for social programmes; (ii) improving the Government's educational cash transfers to boost girls' primary educational enrolment and narrow the gender gap and (iii) developing a nutrition programme for mothers and children to reduce stunting. This progress notwithstanding, the Government is working on additional initiatives aimed at strengthening its social support, including:

- *Seeking to ensure timely disbursement of benefits and expanding the number of beneficiaries.* The Government met the end of June 2021 target on cash transfers by BISP thanks to the one-off disbursement under the EEC programme amid its COVID-19 response efforts. In the fiscal year 2020-21, the six month tranche of Rupees 12,000 per beneficiary for the period from 1 July to 31 December 2020 was disbursed to regular BISP beneficiaries in November 2020 and the next six month tranche for the period from 1 January to 30 June 2021 was disbursed in April 2021. The Government is also on track to expand the BISP cash transfers to eight million families by 30 June 2022 (up from approximately 4.3 million as at 30 June 2020 and approximately 6.4 million as at 30 June 2021).
- *Finalising the update of the NSER and using it to seek to ensure adequate targeting.* As of the end of December 2020, the Government completed 55 per cent. of the update through a combination of a door-to-door survey and a desk-based self-registration mechanism. In parallel, the Government is proceeding with the re-certification of surveyed beneficiaries. However, all field activities have been stopped as a result of the COVID-19-related lockdown measures. As the Government was already facing increasing challenges deploying field workers (especially

in remote areas with greater security concerns), the Government completed the registry update with a one-year delay (by the end of June 2021). This is expected to help the Government to ensure adequate targeting of BISP cash transfers to all beneficiaries and to introduce an adequate indexing scheme.

- *Expanding BISP benefits.* The Government has already approved a 20 per cent. increase in the quarterly stipend of regular BISP beneficiaries from Rupees 5,000 to Rupees 6,000 from January 2020. The Government has also decided to further increase the quarterly stipend to Rupees 6,500 with effect from January 2022. Moreover, the *Ehsaas Taleemi Wazifa* programme has been expanded from primary education only to secondary and higher secondary education with the following stipend rates:

Level of Education	Per boy per quarter (Rupees)	Per girl per quarter
Primary level	1,500	2,000
Secondary level	2,500	3,000
Higher secondary level	3,500	4,000

Source: BISP

- *Helping beneficiaries to open savings bank accounts to advance financial inclusion.* To implement *Ehsaas* Financial Inclusion Strategy, BISP has designed and launched a pilot project for the opening of savings accounts (mobile wallets) by, and improving financial literacy of, *Ehsaas Kafaalt* beneficiaries.

Recent Finance Programmes with the IMF

Under its previous Government, which was in power from May 2013 until 31 May 2018, Pakistan sought to make progress in fiscal consolidation and economic liberalisation, and implemented certain tax reforms and energy sector reforms, privatised a number of state-owned enterprises and sought to attract increased levels of foreign investment. The 2014 to 2016 finance programme with the IMF provided an institutional framework for achieving those economic policy objectives. With the release of the last tranche in August 2016, total disbursements under the arrangement amounted to SDR 4.39 billion (approximately U.S.\$6.15 billion) to be repaid by 2026.

As the economic situation deteriorated, and with a view to prevent severe macroeconomic instability, the new Government that assumed office in August 2018 negotiated a new agreement with the IMF with respect to the Extended Fund Facility for achieving macroeconomic stability. On 3 July 2019, the IMF Board approved a 39-month extended arrangement under the Extended Fund Facility for Pakistan for an amount of SDR 4,268 million (approximately U.S.\$6 billion) to support the authorities' economic reform programme. The IMF Board's approval allowed for an immediate disbursement of SDR 716 million (or approximately U.S.\$1 billion). The remaining amount was scheduled to be phased over the duration of the programme, subject to quarterly and semi-annual reviews.

On 19 December 2019, the IMF Board completed the first review of Pakistan's economic performance under the IMF EFF. The completion of the review process allowed the Pakistani authorities to draw SDR 328 million (approximately U.S.\$452.4 million). The press release issued by the IMF on 19 December 2019 noted that Pakistan's economic reform programme was on track and that decisive policy implementation by the Pakistani authorities was helping to preserve economic stability aiming to put the economy on the path of sustainable growth.

As a result of the COVID-19 outbreak, in April 2020 it became clear that growth was expected to contract sharply as the economy was adversely affected by demand and supply shocks. Exports and remittances were expected to decline sharply, which together with a temporary loss of market access

created an urgent balance-of-payments need. In addition, public finances were expected to come under significant pressure from the sudden increase in health- and mitigation-related expenditures as well as the decline in tax revenues. In these circumstances, the Pakistani authorities requested financial assistance from the IMF under the Rapid Financing Instrument (RFI) in the amount of 50 per cent. of quota (SDR 1,015.5 million (approximately U.S.\$1,386 million)) to help address the urgent fiscal and balance-of-payments needs, while making these resources available to the budget to support the emergency policy response. On 16 April 2020, the IMF Board approved the disbursement of U.S.\$1,386 million under the RFI to Pakistan to address the economic impact of the COVID-19 shock.

At the same time, Pakistan and the IMF agreed at the time to temporarily put on hold the review process under the existing U.S.\$6 billion IMF EFF and revise it after the peak of the COVID-19 pandemic is over. The 10 April 2020 staff report released by the IMF stated that "the RFI is the appropriate instrument to support Pakistan at this juncture as the severity of the shock and the uncertainty about the outlook make it difficult to recalibrate the existing Extended Fund Facility (EFF) to ensure that it remains on track to meet its objectives".

In February 2021, an IMF team led by Ernesto Ramirez Rigo concluded virtual discussions with the Pakistani authorities and reached a staff-level agreement on the second to fifth reviews of the Government's reform programme supported by the U.S.\$6 billion Extended Fund Facility. On 24 March 2021, the IMF Board completed the combined second through fifth reviews of the Extended Arrangement under the IMF EFF.

The Government believes that agreed package achieved an appropriate balance between supporting the economy, ensuring debt sustainability and advancing structural reform. The approval by the IMF Board allowed for an immediate release of around U.S.\$500 million. The IMF team acknowledged that the COVID-19 shock temporarily disrupted Pakistan's progress under the IMF EFF-supported programme. However, the Government's policies and allowing higher than expected COVID-related social spending have been critical in supporting the economy and saving lives and households.

On 23 August 2021, Pakistan received U.S.\$2.77 billion from the IMF. Prior to that, the IMF Board approved a general allocation of SDRs equivalent to U.S.\$650 billion to boost global liquidity. Pakistan's share of this amount was U.S.\$2.77 billion. The IMF released this amount to Pakistan unconditionally and the funds were transferred to the SBP to help to further strengthen the country's foreign exchange reserves.

On 21 November 2021, the IMF issued a statement confirming that the Pakistani authorities and IMF staff have reached a staff-level agreement on policies and reforms needed to complete the sixth review under the IMF EFF. The agreement is subject to approval by the IMF Board, following the implementation of prior actions, notably on fiscal and institutional reforms. Completion of the review would make available SDR 750 million (about U.S.\$1,059 million), bringing total disbursements under the IMF EFF to about U.S.\$3,027 million.

On 30 December 2021, the Government introduced two bills required to meet conditions of the IMF in the National Assembly: the Finance (Supplementary) Bill 2021 seeking to amend certain laws on taxes and duties – also known as the mini-budget – and the State Bank of Pakistan (Amendment) Bill 2021. Both bills were approved by National Assembly on 13 January 2022. The focus of the Finance (Supplementary) Act, 2020 is on withdrawal of many exemptions in the tax laws, principally in sales tax regime, that created “distortions” in the economy in the past. This Act also provides a much needed fiscal space to the Government by making imports more expensive and reducing the pressure on foreign exchange.

Employment

According to the Labour Force Survey 2018-19, employment has risen in 2018-19 as compared to 2017-18. The increase in the number of employed persons was almost the same for men and women, with most of the increase coming from rural areas:

	Employed Labour Force			2018-19		
	Total	Male (millions)	Female	Total	Male (millions)	Female
Pakistan	61.71	48.17	13.54	64.03	49.33	14.70
Rural	40.75	29.73	11.02	42.93	30.59	12.34
Urban	20.96	18.44	2.52	21.10	18.74	2.36

	Unemployed Labour Force			2018-19		
	Total	Male (millions)	Female	Total	Male (millions)	Female
Pakistan	3.79	2.57	1.22	4.71	3.08	1.63
Rural	2.15	1.47	0.68	2.92	1.77	1.15
Urban	1.64	1.10	0.54	1.79	1.31	0.48

Employment Status	Employed-Distribution by Employment Status and Gender			2018-19		
	Total	Male (%)	Female	Total	Male (%)	female
Total	100.00	100.00	100.00	100.00	100.00	100.00
Employers	1.4	1.7	0.1	1.5	1.9	0.1
Own account workers	34.8	39.1	19.5	35.8	40.2	21.2
Contributing family workers	21.4	12.9	51.9	22.9	12.8	56.9
Employees	42.4	46.3	28.5	39.8	45.1	21.8

Source: Labour Force Survey 2018-19

Average monthly wages increased in every major industry division construction in 2018-19 as compared to 2017-18:

Industry Division	Average Monthly Wages of Employees by Major Industry Divisions			2018-19		
	Total	Male (Rupees)	Female	Total	Male (Rupees)	Female
Total	18,754	19,943	11,884	21,326	22,172	15,461
Agriculture, forestry, hunting and fisheries	9,645	11,806	6,007	11,228	12,739	7,556
Mining and quarrying	23,843	23,947	5,040	27,669	27,669	-
Manufacturing	16,890	18,687	6,597	19,689	21,319	7,939
Electricity, gas and water	27,600	27,641	24,928	32,900	32,926	31,430
Construction	16,402	16,422	13,222	15,234	15,242	15,226
Wholesale and retail trade; restaurants and hotels	14,541	14,538	14,868	15,464	15,465	15,174
Transport, storage and communications	21,338	21,187	36,901	22,920	22,707	46,276
Financing, insurance, real estate and business services	40,178	40,892	25,531	45,258	45,940	31,737
Community, social and personal services	25,530	31,223	18,012	28,827	31,995	21,330

Source: Labour Force Survey 2018-19

China-Pakistan Economic Corridor (CPEC)

The aim of CPEC is to enhance trade, investment, regional integration and connectivity between Pakistan, China and other countries in the region by building rail, road, gas, oil pipelines and fibre optic links. The CPEC programme principally focuses on the development of special economic zones along the corridor, power and transport projects and 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. Promotion of tourism, development of agriculture and enhancement of cooperation in science and technology are also among the goals of the CPEC programme.

Further details of the CPEC projects are as follows:

Energy

- In 2014, Pakistan and China agreed on a list of projects with an aggregate of 17,045 MW of new generation capacity, consisting of hydroelectric, wind, solar and coal-fired power projects, as well as two high voltage direct current (HVDC) transmission lines. Of these, power projects with an aggregate of 3,997 MW new generation capacity and one HVDC transmission line are still in the planning stage and their approval is subject to the supply and demand analysis with respect to power (electricity) requirements in Pakistan.
- The nine power projects that have already been commissioned have an aggregate generation capacity of 5,320 MW and provide approximately 13 per cent. of the overall rated power generation capacity of Pakistan (41,797 MW). Another eight power projects with an aggregate generation capacity of 4,470 MW are under different implementation stages, and all of them are expected to be commissioned by 2025. The overall contribution of these 17 commissioned and under implementation projects is expected to reach 18 per cent. of overall rated power generation capacity of Pakistan by 2025.
- Five projects are "in pipeline" stage (i.e. none of them are expected to be commissioned before 2026), including two hydroelectric power projects, with generation capacity of 1,124 MW and 701 MW.

Additional information on all of these power projects is provided in the table below.

Power Project (Including Capacity)	Status	Actual or Estimated Cost (U.S.\$ million)
1,320 MW Sahiwal Coal-fired Power Plant, Punjab	Operational	1,912
1,320 MW Coal-fired Power Plants at Port Qasim Karachi	Operational	1,912
1,320 MW HUBCO Coal Power Project, Hub, Balochistan	Operational	1,912
660 MW Engro Thar Coal Power Project	Operational	995
400 MW Quaid-e-Azam Solar Park	Operational	520
50 MW Hydro China Dawood Wind Farm	Operational	113
100 MW UEP Wind Farm	Operational	250
50 MW Sachal Wind Farm	Operational	134
100 MW Three Gorges Wind Power Project	Operational	150
Total for the nine operational projects: 5,320 MW		7,899
	Under	
300 MW Imported Coal Based Power Project at Gwadar	Implementation	542
	Under	
1,320 MW Shanghai Electric Thar Coal Block-I Power Plant	Implementation	1,912
	Under	
330 MW HUBCO Thar Coal Power Project	Implementation	498
	Under	
330 MW ThalNova Thar Coal Power Project	Implementation	498
	Under	
720 MW Karot Hydropower Project	Implementation	1,698
	Under	
870 MW Suki Kinari Hydropower Project	Implementation	1,963
	Under	
600 MW Quaid-e-Azam Solar Park	Implementation	781
	Under	
HDVC transmission line (dual pole 660 KV Lahore-Matiari)	Implementation	1,658
Total for the eight under implementation projects: 4,470 MW		9,550
	In Pipeline	
1,320 MW Thar (Oracle) Coal Power Plant	In Pipeline	1,912
1,124 MW Kohala Hydroelectric Power Project	In Pipeline	2,408
701 MW Azad Pattan Hydroelectric Power Project	In Pipeline	1,650
50 MW Gacho Wind Power Project	In Pipeline	75
50 MW Western Energy (Pvt.) Ltd. Wind Power Project	In Pipeline	75
Total for the five "in pipeline" projects: 3,244 MW		6,120

Source: CPEC Authority

Transport Infrastructure

- The construction of the 392 km Multan-Sukkur section of the Karachi-Peshawar Motorway at a cost of U.S.\$2,889 million. Work on this project commenced in May 2016 and the project achieved commercial operation in November 2019. The project was financed under a Government concessional loan.
- The construction of the 120 km Thakot-Havelian section of the Karakoram Highway at a cost of U.S.\$1,315 million. Work on this project commenced in September 2016 and the project achieved commercial operation in July 2020. The project was financed under a Government concessional loan.
- The construction of the 27 km Orange Line Metro Train project at a cost of U.S.\$1.626 million. This project achieved commercial operation in October 2020. The project was financed under a Government concessional loan.

- The construction of the 297 km motorway from Hakla to D.I.Khan, at a cost of U.S.\$672 million. Work on this project commenced in 2017. The Prime Minister inaugurated the Hakla – D.I. Khan motorway on 5 January 2022. This project was funded under the Public Sector Development Programme (PSDP).
- The construction of the 106 km two-lane highway from Basima to Khuzdar in the Khuzdar district of Balochistan province, with an estimated cost of U.S.\$118 million. Work on this project commenced in 2018. Its commercial operation is expected to be achieved in June 2022. This project is being funded under the PSDP.
- The upgrade of the 305 km Zhob – Quetta (N-50) road from two to four lanes, with an estimated cost of U.S.\$391 million. Ground-breaking ceremony for this project was held in March 2019. This project is being funded under the PSDP.
- The construction of the 146 km two-lane highway from Hoshab to Awaran in Balochistan province, with an estimated cost of U.S.\$240 million. Ground-breaking ceremony for this project was held in November 2020. This project is being funded under the PSDP.
- The upgrade of the 235 km D.I.Khan (Yarik) – Zhob (N-50 Phase-1) road from two to four lanes, with an estimated cost of U.S.\$472 million. Planning Commission PC-1 Form has been approved. Negotiations with respect to concessional financing for this project between China and Pakistan are ongoing.
- The Public-Private Partnership Authority has approved the construction of Sukkur-Hyderabad Motorway (M-6), a critical component of CPEC, on a build-operate-transfer basis. The estimated cost of this 306 km motorway is U.S.\$1,208 million.
- The upgrade of the 1,733 km Karachi-Peshawar railway line (ML-1), with an estimated cost of U.S.\$6,806 million. Negotiations with respect to concessional financing for this project between China and Pakistan are ongoing.
- The construction of 43 km Karachi Circular Railway, which will serve as primary mass transit corridor to improve public mass transportation system, at an estimated cost of U.S.\$1,917 million. The feasibility study for this project was completed in May 2017. Negotiations with respect to concessional financing for this project with China are ongoing.

Recently, the following new projects have been approved as part of the PSDP under CPEC portfolio:

- Construction of the 168 km Awaran – Naal section of M-8 project with an estimated cost of Rupees 32 billion;
- Upgrade of the 330 km Khuzdar – Kuchlak section of N-25 with an estimated cost of Rupees 81 billion; and
- Upgrade of the 136 km Awaran – Jhal Jaho – Bela section with an estimated cost of Rupees 18 billion.

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 and 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 the 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 construction of an airport satisfying international standards, a commercial centre, a fishermen's centre, residential development, a gas and oil storage plant and industrial storage.

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

Project	Estimated Cost (U.S.\$ million)	Status
Gwadar East-Bay Expressway	179	Expected to be completed in April 2022
New Gwadar International Airport	230	Ground-breaking ceremony held in March 2019. Approximately 17 per cent. of work completed
Water supply project	130	Phase-I completed. Approximately 98 per cent. of work on Phase-II completed. Phase-III is expected to be commenced in 2021
Gwadar 300 MW Power Project	542	See " <i>Energy</i> " above
Technical and Vocational Institute	10	Ground-breaking ceremony held on 16 December 2019. Approximately 95 per cent. of work completed
Pak China Friendship Hospital	100	Feasibility study completed to add 100 beds to the existing 50 (subsequent extension to 300 beds anticipated). Ground-breaking ceremony held on 16 December 2019. Approximately 15 per cent. of work completed
Establishment of Gwadar Free Zone	32	1st phase completed and inaugurated in January 2018. Ground-breaking ceremony for the 2nd phase was held in July 2021
Construction of port breakwaters	123	Planning Commission PC-1 Form has been prepared and submitted for approval
Dredging of berthing areas and channels	27	PC-1 for holding feasibility study has been approved and allocation has been made in the PSDP 2021-22
Gwadar Smart Port City Master Plan	4	Completed
Total	1,377	

Source: CPEC Authority

Communications

China and the Government have successfully piloted a project for digital terrestrial multimedia broadcast, the TV standard for mobile and fixed terminals used in China, in Murree with a grant of U.S.\$4 million from China. Another project (DTMB-A) to digitise three existing sites of Pakistan Television Corporation (PTV) using digital terrestrial multimedia broadcast, with an estimated cost of U.S.\$24 million, is currently in the pipeline. In addition, a U.S.\$44 million cross-border fibre optic cable project between Khunjerab and Rawalpindi (820 km) was inaugurated by the Prime Minister in July 2018. In the second phase of this project, with an estimated cost of U.S.\$237 million, this fibre optic cable will be extended to Karachi and Gwadar.

Special Economic Zones

Out of the nine special economic zones (SEZs) to be developed under CPEC framework (seven provincial and two federal), four (Allama Iqbal Industrial City in Punjab, Rashakai Economic Zone in

KPK, Dhabeji Special Economic Zone in Sindh and Bostan Industrial Zone in Balochistan), all of which are provincial SEZs, have been fast-tracked under CPEC. The ground-breaking ceremony for the Allama Iqbal Industrial City was held in January 2020 and for the Rashakai Economic Zone in May 2021. In order to expedite the development of these SEZs, the federal government has ensured the provision of utilities to these SEZs and allocated Rupees 4 billion for such purpose in the federal PSDP in the fiscal year 2020-21.

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 a slight decrease in 2020-21 principally due to negative growth in the mining and quarrying sector and in electricity generation and distribution and gas distribution. It amounted to 19.12 per cent. of GDP in 2020-21. The share of the agricultural sector declined from its highest level of approximately 39 per cent. of GDP in 1969-70 to 19.19 per cent. of GDP in 2020-21; during the same period, the share of the services sector increased from 45 per cent. of GDP in 1969-70 to 61.68 per cent. of GDP in 2020-21.

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 2016-17 to 2020-21.

Sectors	2016-17	2017-18	2018-19 ⁽¹⁾	2019-20 ⁽²⁾	2020-21 ⁽³⁾	2019-20/ 2018-19	2020-21/ 2019-20
Rupees (millions, unless otherwise stated)	(% change)						
A. Services Sector	7,014,467	7,459,758	7,742,479	7,699,891	8,041,169	(0.6)	4.4
1. Wholesale and retail trade	2,187,751	2,331,415	2,356,539	2,263,668	2,453,199	(3.9)	8.4
2. Transport, storage and communication	1,557,639	1,587,297	1,660,907	1,597,828	1,588,101	(3.8)	(0.6)
3. Finance and insurance	396,669	426,012	445,219	450,270	485,574	1.1	7.8
4. Housing services (ownership of dwellings)	777,140	808,172	840,489	874,219	909,247	4.0	4.0
5. General government services	882,015	986,125	1,037,147	1,047,767	1,070,833	1.0	2.2
6. Other private services	1,213,253	1,320,737	1,402,178	1,466,139	1,534,215	4.6	4.6
B. Agricultural Sector	2,253,565	2,343,614	2,356,827	2,434,850	2,502,181	3.3	2.8
1. Crops	832,744	871,796	828,596	874,504	896,102	5.5	2.5
Important crops	534,659	553,693	511,129	537,929	562,964	5.2	4.7
Other crops	244,703	260,026	266,791	288,344	292,420	8.1	1.4
Cotton ginning	53,382	58,077	50,676	48,231	40,718	(4.8)	(15.6)
2. Livestock	1,326,948	1,375,986	1,428,608	1,458,624	1,503,254	2.1	3.1
3. Forestry	45,505	46,679	50,076	51,880	52,617	3.6	1.4
4. Fisheries	48,368	49,153	49,547	49,842	50,280	0.6	0.7

Sectors	2016-17	2017-18	2018-19 ⁽¹⁾	2019-20 ⁽²⁾	2020-21 ⁽³⁾	2019-20/ 2018-19	2020-21/ 2019-20
Rupees (millions, unless otherwise stated)						(% change)	
C. Industrial Sector	2,428,902	2,540,894	2,501,345	2,407,093	2,493,031	(3.8)	3.6
1. Mining and quarrying	331,121	356,949	361,221	331,309	309,823	(8.3)	(6.5)
2. Manufacturing	1,581,680	1,667,524	1,656,069	1,533,747	1,667,362	(7.4)	8.7
Large scale	1,260,836	1,325,429	1,290,942	1,160,247	1,268,043	(10.1)	9.3
Small scale	214,839	232,383	251,532	255,303	276,530	1.5	8.3
Slaughtering	106,005	109,712	113,595	118,197	122,789	4.1	3.9
3. Electricity generation and distribution and gas distribution	198,180	164,067	186,328	228,065	175,700	22.4	(23.0)
4. Construction	317,921	352,354	297,727	313,972	340,146	5.5	8.3
Commodity Producing Sector (B+C)	4,682,467	4,884,508	4,858,172	4,841,943	4,995,212	(0.3)	3.2
GDP (A+B+C)	11,696,934	12,344,266	12,600,651	12,541,834	13,036,381	(0.5)	3.9
Taxes	795,386	862,628	795,748	740,311	812,900	(7.0)	9.8
Subsidies	83,545	73,891	113,056	123,053	71,924	8.8	(41.6)
GDP + Taxes – Subsidies	12,408,775	13,133,003	13,283,343	13,159,092	13,777,357	(0.9)	4.7
Net factor income from abroad	669,191	673,876	874,614	1,089,918	1,484,683	24.6	36.2
Gross national income	13,077,966	13,806,879	14,157,957	14,249,010	15,262,040	0.6	7.1
Population (million)	197.3	201.0	204.7	208.3	211.9	1.8	1.7
Per capita income	66,300	68,705	69,181	68,403	72,015	(1.1)	5.3

(1) Final

(2) Revised

(3) Provisional.

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 from 2016-17 to 2020-21:

Sectors	2016-17	2017-18	2018-19 ⁽¹⁾	2019-20 ⁽²⁾	2020-21 ⁽³⁾	2019-20/ 2018-19	2020-21/ 2019-20
Rupees (millions, unless otherwise stated)						(% change)	
A. Services Sector	16,975,549	18,270,699	20,518,341	22,374,227	25,223,552	9.0	12.7
1. Wholesale and retail trade	5,792,701	6,232,618	6,902,928	7,196,739	8,419,076	4.3	17.0

Sectors	2016-17	2017-18	2018-19 ⁽¹⁾	2019-20 ⁽²⁾	2020-21 ⁽³⁾	2019-20/ 2018-19	2020-21/ 2019-20
Rupees (millions, unless otherwise stated)						<i>(% change)</i>	
2. Transport, storage and communication	3,697,932	3,523,539	3,866,033	4,065,331	4,785,777	5.2	17.7
3. Finance and insurance	594,362	684,623	908,121	1,106,187	916,265	21.8	(17.2)
4. Housing services (ownership of dwellings)	1,668,521	1,848,594	2,059,629	2,275,293	2,485,965	10.5	9.3
5. General government services	2,263,393	2,629,924	2,968,885	3,332,876	3,670,326	12.3	10.1
6. Other private services	2,958,640	3,351,401	3,812,745	4,397,801	4,946,143	15.3	12.5
B. Agricultural Sector	7,318,465	7,911,779	8,368,631	9,612,331	11,542,998	14.9	20.1
1. Crops	2,826,463	2,964,894	2,888,671	3,702,887	4,642,762	28.2	25.4
Important crops	1,827,252	1,890,555	1,803,359	2,333,252	3,068,717	29.4	31.5
Other crops	811,971	874,378	909,337	1,170,812	1,376,753	28.8	17.6
Cotton ginning	187,240	199,961	175,975	198,822	197,293	13.0	(0.8)
2. Livestock	4,180,531	4,615,565	5,119,066	5,509,117	6,470,351	7.6	17.4
3. Forestry	172,578	183,199	202,162	220,332	244,184	9.0	10.8
4. Fisheries	138,893	148,121	158,732	179,995	185,701	13.4	3.2
C. Industrial Sector	5,683,545	6,220,543	7,010,231	7,364,291	8,128,397	5.1	10.4
1. Mining and quarrying	644,686	755,778	1,004,203	1,095,298	976,819	9.1	(10.8)
2. Manufacturing	3,830,210	4,217,685	4,730,014	4,764,739	5,621,560	0.7	18.0
Large scale	3,044,603	3,331,305	3,722,568	3,646,994	4,282,289	(2.0)	17.4
Small scale	457,088	506,839	572,034	624,546	755,325	9.2	20.9
Slaughtering	328,520	379,542	435,412	493,199	583,946	13.3	18.4
3. Electricity generation and distribution and gas distribution	529,040	435,889	530,908	717,505	611,169	35.1	(14.8)
4. Construction	679,609	791,191	745,106	786,749	918,849	5.6	16.8
Commodity Producing Sector (B+C)	13,002,010	14,112,322	15,378,862	16,976,622	19,671,395	10.4	15.9
GDP (A+B+C)	29,977,559	32,383,021	35,897,203	39,350,849	44,894,947	9.6	14.1
Taxes	2,170,448	2,435,629	2,515,836	2,599,306	3,065,120	3.3	17.9
Subsidies	225,704	202,348	326,807	393,829	250,742	20.5	(36.3)
GDP + Taxes – Subsidies	31,922,303	34,616,302	38,086,232	41,556,326	47,709,325	9.1	14.8
Net factor income from abroad	1,743,643	1,846,151	2,550,025	3,242,724	4,513,289	27.2	39.2

Sectors	2016-17	2017-18	2018-19 ⁽¹⁾	2019-20 ⁽²⁾	2020-21 ⁽³⁾	2019-20/ 2018-19	2020-21/ 2019-20
Rupees (millions, unless otherwise stated)						(% change)	
Gross national income	33,665,946	36,462,453	40,636,257	44,799,050	52,222,614	10.2	16.6
Population (million)	197.3	201.0	204.7	208.3	211.9	1.8	1.7
Per capita income	170,672	181,441	198,565	215,060	246,414	8.3	14.6
Per capita income (U.S.\$)	1,630	1,652	1,459	1,361	1,543	(6.7)	13.4
GDP deflator index	256.29	262.33	284.88	313.76	344.38	10.1	9.8
GDP deflator (% growth)	3.97	2.36	8.60	10.14	9.76	-	-

- (1) Final
(2) Revised
(3) Provisional.

Source: Pakistan Bureau of Statistics

Principal Sectors of the Economy

Services Sector

The services sector in Pakistan consists of (i) wholesale and retail trade, (ii) transportation, storage and communications, (iii) finance and insurance, (iv) housing services, (v) general government services and (vi) other private services. The services sector has been an important contributor to Pakistan's economic growth and it contributed 61.68 per cent. of GDP in 2020-21, experiencing growth of 4.4 per cent. in 2020-21, compared to 61.4 per cent. of GDP (and negative growth of 0.6 per cent) in 2019-20.

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. Average daily capacity is estimated at 180,000 people. Lahore already maintains a metro-bus network. Another metro-bus project was inaugurated on January 24, 2017 from Bahuddin Zakaria University (BZU) to Chowk Kumaharan ("Multan Metrobus System"). This metro-bus system covers an 18.5 kilometre, 21 station route. A 27 kilometre Orange Line Metro Train project, which was completed at a cost of U.S.\$1.6 billion, achieved commercial operation in October 2020.

The Government is providing Rupees 24.604 billion for construction of the infrastructure of a bus rapid transit system (green line) in Karachi. The project envisages construction of a 27.45 kilometre long two lane dedicated signal free bus rapid transit system connecting KESC Power House Chowrangi (Abdullah Chowk), Surjani town to the central business district of Karachi. Operations at the first 21.7 kilometre section from Surjani town to Municipal Park M.A Jinnah road are expected to start by end-November 2021. The remaining portion of the project from Municipal Park M.A Jinnah road to is expected to be completed by 31 December 2022.

Another project funded by the federal government and started in 2016-17 is a 25.6 kilometre long metro-bus system from Peshawar Moor to New Islamabad International Airport, which is estimated to cost Rupees 16.43 billion. This project is expected to be fully completed in March 2022.

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. Pakistan's current road network is approximately 501,424 kilometres. This includes 12,122 kilometres of national highways and motorways, 93,000 kilometres of provincial highways, with the rest being district and rural roads.

The National Highway Authority (**NHA**) is responsible for the construction and maintenance of the national highways and strategic roads. The Government, through the NHA, has a number of new projects and programmes to develop the road network. For the description of key CPEC road network projects, see "*China-Pakistan Economic Corridor (CPEC) – Transport Infrastructure*".

New and improved road links are a key component of CPEC and, in particular, the connection from Gwadar Port in Southern Pakistan to China's North Western region of Xianjiang. The distance from Kashgar to Gwadar Port is 2,815 kilometres, which is substantially less than the over 4,000 kilometre distance from Kashgar to the Chinese coast and so represents a substantial time-saving for cargo shipments to Kashgar via Gwadar. The new CPEC road links will also provide access to Afghanistan through Torkham and Chaman and will open up new under-developed areas of Pakistan and integrate the existing ones along the Gwadar – Karachi – Lahore-Khunjerab corridor.

The NHA has already constructed several segments of the Pakistan motorway network such as M-1 (Peshawar-Islamabad), M-2 (Islamabad-Lahore), M-3 (Lahore-Abdul Hakim), M-4 (Pindi Bhattian-Faisalabad-Gojra-Shorkot-Khanewal-Multan), M-5 (Multan-Sukkur), E-35 (Hassan Abdal-Havelian-Mansehra-Thakot) and M-11 (Lahore-Sialkot) thereby boosting economic activity. The Public-Private Partnership Authority has also approved the construction of the M-6 (Sukkur-Hyderabad) on a build-operate-transfer basis.

Federal PSDP for the fiscal year 2021-22 contains an allocation of Rupees 113.8 billion for 62 NHA projects. Out of these, 47 projects are categorised as on-going with an annual allocation of Rupees 99.4 billion and the remaining 15 projects are new with an annual allocation of Rupees 14.4 billion. In addition, six NHA projects are shown separately with an aggregate annual allocation of Rupees 41.7 billion under "Viability Gap Funding" for public-private partnership projects.

The NHA successfully attracted private sector investment and has participated in five build-operate transfer or public-private partnership projects with a combined estimated cost of over Rupees 90 billion.

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 has declined and its share of inland traffic has decreased significantly.

The Government is taking a number of initiatives to improve performance of Pakistan Railways, including the reconstruction and upgrade of the Karachi – Peshawar railway line, known as Mainline 1.

At the end of February 2021, Pakistan Railways had 466 locomotives for 7,791 kilometres of its railway routes. During the July-February period of the fiscal year 2020-21, Pakistan Railways' gross earnings decreased by 16.1 per cent. as compared to the same period of the previous year and amounted to Rupees 30,966 million. During the same period, the number of passengers carried decreased by 54.0 per cent. as compared to the same period of the previous year and amounted to 18.1 million.

Civil Aviation. In large part due to Pakistan's liberal open skies policy and tough competition resulting in price wars, the financial state of the Pakistan International Airlines (**PIA**) is currently poor, although it has significantly improved in comparison with the previous year. PIA follows the calendar year for financial and operational matters. In 2020, its operating revenue was Rupees 94,683 million as compared to Rupees 146,097 million in 2019, while its operating expenses were Rupees 102,912

million in 2020 as compared to Rupees 160,037 million in 2019 (with both operating revenue and operating expenses based on provisional/estimated and unaudited accounts).

PIA is in the process of implementing its five-year Business Plan 2019-23 to improve its performance. The measures taken by PIA to improve its performance include, among other things, the following:

- Recovery of B-777, A-320 and ATR aircraft grounded for the last 13-22 months by using its own resources without funding from the Government.
- Increasing maximum take-off weight limitation on A-320 aircraft, thereby increasing payload carrying capacity.
- Negotiations with maintenance, repair and overhaul services providers for rationalisation/reconciliation of payments.
- Resumption of night operations from Bacha Khan International Airport, Peshawar.
- Resolution of overflying permission over Iran and Turkmenistan.
- Successful completion of pending audits and holding of annual general meetings for years 2017 and 2018 in compliance with the Companies Act and compliance requirements of the Securities and Exchange Commission of Pakistan.
- Introduction of two narrow-body aircraft on dry lease to augment the existing fleet, earn more revenue and meet market demand.
- Achievement of higher passenger revenues to reduce operational losses.
- Undertaking Hajj operations using its own fleet rather than acquiring aircraft on lease for this purpose.
- Starting new profitable routes including: Sialkot-Paris, Sialkot-Barcelona, Peshawar-Sharjah, Peshawar-Al-Ain and Multan-Sharjah.
- Discontinuing loss-making routes.
- Operating additional flights on profitable routes such as to Dubai, Jeddah and Madina.
- Terminating ghost employees and employees with fake degrees in accordance with the decision and direction of the Supreme Court of Pakistan.
- Putting in place a centralised medical centre for all PIA employees leading to cost savings.

Maritime Affairs – Ports. Karachi Port and Port Qasim, both located in Karachi, are the two major ports in Pakistan. Karachi Port Trust was established in 1886. During the July 2020 to March 2021 period, Karachi Port Trust managed a total cargo and container volume of 39.4 million tons. It experienced a 21 per cent. increase in total cargo and container handling over the July 2019 to March 2020 period. While export cargo and container volume grew by 3 per cent. in the July 2020 to March 2021 period as compared to the July 2019 to March 2020 period, imports increased by 31 per cent. over the same period.

In the fiscal year 2020-21, Port Qasim handled a total cargo volume of 51.0 million tons, with imports accounting for 43.5 million tons and exports accounting for 7.5 million tons.

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 development of 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 approach channel was completed in 2017. 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.

Maritime Affairs – Shipping. Pakistan National Shipping Corporation (PNSC) is the national flag carrier that is engaged in providing shipping services on a global basis. It is an autonomous corporation that functions under the overall control of the Ministry of Maritime Affairs. It is managed by a board of directors who are appointed by the federal government. PNSC manages a fleet of 11 ships, a repair workshop and real estate. The fleet's total carrying capacity at present is 831.7 thousand tons of deadweight. It transports all types of cargoes on several geographical routes covering almost the entire world. The PNSC's fleet comprises four Aframax tankers, two LR-1 tankers and five bulk carriers.

Communications

Postal Services. Pakistan Post Office, with its over 10,103 post offices as of March 2021, is playing a vital role in the economic and social development of Pakistan through postal services that can be broadly categorised as domestic and international postal services, financial services, savings bank, postal life insurance and agency functions, such as the collection of payments on utility bills, payment of military pensions, collection of provincial taxes, and disbursement of funds under the BISP on behalf of federal and provincial government departments.

Telecommunications. The telecommunications industry contributes significantly to Pakistan's economy. The Government has granted high priority to developing Pakistan's telecommunications industry to facilitate sustainable growth in all sections of the economy. Pakistan successfully deregulated its telecommunications industry in 2003-04, leading to increased competition in the fixed line and mobile cellular segments of the telecommunications industry and resulting in the expansion of telecommunication infrastructure, low tariffs, high revenues, increased tax contributions and employment opportunities. The telecommunications industry experienced positive growth during the fiscal year 2020-21. The total number of mobile subscriptions (number of active SIMs) reached 184.7 million as at 30 June 2021, as compared to 168.5 million as at 30 June 2020. Total teledensity reached 85.3 per cent. as at 30 June 2021 registering growth of 8.1 per cent. during the fiscal year 2020-21. Based on figures updated in June 2021, cellular operators' respective market shares were PMCL (Jazz) 37.9 per cent, Telenor 26.7 per cent, PTML (Ufone) 12.5 per cent, CMPAK (Zong) 22.0 per cent. and SCO 0.8 per cent.

Other segments of the telecommunications industry include, among others, fixed local loop, wireless local loop and long distance international. The combined subscriber base of the fixed local loop and wireless local loop segments increased to 2.54 million as of 30 June 2021 as compared to 2.49 million as of 30 June 2020.

Mobile and fixed broadband subscriber base experienced strong growth of 22 per cent. from in the fiscal year 2020-21. As of 30 June 2021, the number of broadband subscribers reached 102.6 million as compared to 83.7 million as of 30 June 2020.

The telecommunications industry is among the major foreign investment attracting sectors in Pakistan. From the fiscal year 2004-05 to the fiscal year 2020-21, the telecommunications sector attracted over U.S.\$11.7 billion in foreign direct investment inflows, including U.S.\$202 million during the fiscal year

2020-21. In addition, telecommunications operators in Pakistan invested U.S.\$900 million during the fiscal year 2020-21.

Multinational mobile operators (CMPak, Jazz, Telenor, Ufone and PTCL) have successfully carried out 5G trials in Pakistan. Discussions of the 5G Readiness Plan for commercial launch of 5G network is in the final stages and this plan covers spectrum management, infrastructure development, review of telecommunications regulations and 5G technology applications.

Authorisations for mobile device manufacturing have been awarded by the Pakistan Telecommunication Authority to 26 mobile and smart devices companies. From 1 January 2021 to 31 August 2021, 13.05 million mobile devices have been manufactured/assembled locally, surpassing the commercial import of 8.52 million mobile devices in the same period.

Financial Services

The financial sector in Pakistan comprises 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*, stock exchanges, commodity exchanges, brokerage firms, depository companies, clearing and settlement companies, credit rating companies, share registrars, insurance companies and Takaful. The SBP, which is the central bank of Pakistan, supervises banks, DFIs, MFBs, exchange companies, payment services providers, operators of payment systems or issuers of payment instruments and credit bureaus, while the SECP monitors the remaining non-bank financial institutions.

As at 30 June 2021, the banking industry in Pakistan consisted of 32 commercial banks, nine DFIs and nine nation-wide and two province-wide MFBs. The commercial banks comprise five public sector banks, and 20 private sector banks, including five Islamic commercial banks, four foreign banks (operating through branches) and three specialised banks.

Advances to private sector businesses and to individuals grew by 8.4 per cent. as at 30 June 2021 as compared to 30 June 2020 as set out in the table below:

	As at 30 June 2020	As at 30 June 2021
	(Billion Rupees)	
Private Sector (Business)	5,271.0	5,712.4
Including		
Agriculture, forestry and fishing	280.2	292.3
Manufacturing	3,290.3	3,548.5
Electricity, gas, steam and air conditioning supply	491.8	558.7
Construction	129.6	154.4
Wholesale and retail trade; repair of motor vehicles and motorcycles	429.3	452.6
Transportation and storage	119.6	113.7
Information and communications	159.2	185.4
Personal	675.7	885.9

Source: SBP

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. 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 liquidity in the interbank market, the SBP strengthened the structure of its Interest

Rate Corridor (**IRC**) framework. The main feature of this improved framework was the 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 the SBP was to stabilise 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 a body corporate and the general superintendence and direction of the affairs and business of the SBP is entrusted to the board of directors (**Board**). The Board consists of the Governor (who is also the chairperson of the Board and the Monetary Policy Committee), the Secretary for Finance Division and eight other directors, including at least one from each province, who are eminent professionals from the field of economics, finance, banking or accountancy and is appointed by the federal government. The SBP Act was amended by Parliament in November 2015 to strengthen the SBP's independence. A statutory monetary policy committee (**MPC**) has been constituted under the Amendment Act, which consists of the Governor, three external economic experts, three members of the Board and three senior executives of the SBP. The MPC formulates, supports and recommends the monetary policy. In addition, the SBP has plans to implement a flexible inflation targeting framework (**FIT**). Significant progress has been made on the technical aspects of implementing the FIT framework.

The Board, in addition to other functions under the SBP Act, oversees the foreign exchange reserve management and approves the strategic investment and risk policy. The Governor of the SBP is the chief executive officer and directs and controls the affairs of the SBP on behalf of the Board. The Governor is appointed for a term of three years, which is extendable for another three-year term.

The Foreign Exchange Regulation Act 1947 (**FERA 1947**) regulates certain payments, dealings in foreign exchange and securities and the import and export of currency and bullion. SBP has been vested with regulatory powers under FERA 1947. International investors in Pakistan enjoy the freedom of repatriation of profit and principal, subject to the applicable laws.

The SBP systematically monitors the performance of every banking company to ensure compliance with banking laws, rules, regulations and other applicable laws. The SBP in its regulatory role is entrusted to take appropriate remedial measures under the applicable laws in order to ensure that the management of a bank discharges its responsibility in accordance with the applicable laws or the banking rules and regulations, protects the interests of the depositors or advances loans or enters into other financing transactions with due consideration of the best interests of the bank. The SBP can, among other things, exercise the following regulatory powers under the Banking Companies Ordinance 1962: (i) prohibit the bank from providing 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 managers 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; (x) cancel the bank's share capital to the extent it is not represented by its assets and issue new shares; and (xi) impose penalties. The SBP's regulatory powers extend to the fitness and propriety of sponsors/major shareholders of banks on a continuous basis.

The SBP is empowered to determine cash reserve requirements and statutory liquidity requirements for banks, DFIs and MFBs. Presently, the cash reserve requirement for banks is set at 5 per cent. of the total demand liabilities and time deposits with a tenor of less than one-year on average during the fortnight, subject to a daily minimum of 3 per cent. of the aforementioned applicable liabilities. For DFIs, it is 1 per cent. of their total time and demand liabilities, and for MFBs it is 5 per cent. of total demand deposits and time deposits with a tenor of less than one year. In addition, the banks are required to maintain a statutory liquidity requirement of 19 per cent. for conventional banks and 14 per cent. for Islamic banks and Islamic banking branches of conventional banks against their total demand liabilities and time deposits with a tenor of less than one year on a daily basis. Similarly, MFBs are required to

maintain a statutory liquidity requirement of 10 per cent. of their demand liabilities and time liabilities with a tenor of less than one year, while DFIs are required to maintain statutory liquidity requirement at 15 per cent. of their above specified liabilities.

All banks are required to maintain a risk-based capital adequacy ratio (**CAR**) inclusive of a capital conservation buffer (in the form of common equity tier-1 capital as prescribed by Basel III rules). The requirement for CAR was raised to 12.50 per cent, inclusive of the additional capital conservation buffer of 2.5 per cent, in 2019. However, in the aftermath of the COVID-19 outbreak, CAR has been reduced temporarily to 11.50 per cent. through the reduction of the capital conservation buffer by 1.0 per cent. The Tier 1 capital requirement (including capital conservation buffer) was also raised in a gradual manner from 5.0 per cent. in 2013 to 10.0 per cent. in 2019, but then reduced temporarily to 9.0 per cent. in March 2020 due to the impact of COVID-19. Furthermore, locally incorporated banks are also required to hold at all times a minimum paid-up capital (net of losses) of Rupees 10 billion.

Commercial Banking Sector. The overall performance of the banking sector, which dominates the financial services sector of Pakistan, remained relatively strong over the last few years despite macroeconomic challenges, the ongoing COVID-19 pandemic and other structural issues. Its asset base stood at Rupees 28.8 trillion as at 30 September 2021. Asset growth in the banking sector between 30 September 2020 and 30 September 2021 was 20.9 per cent.. This asset growth between 30 September 2020 and 30 September 2021 was primarily due to the strong increase in investments (by 26.7 per cent). Advances grew by 16.3 per cent. between 30 September 2020 and 30 September 2021. Deposits experienced robust growth of 16.9 per cent. between 30 September 2020 and 30 September 2021. The major increase in deposits was observed in current accounts (non-remunerative) and savings deposits.

Despite the impact of the COVID-19 pandemic, the credit risk indicators have improved and banks' capital levels remained well above both minimum regulatory requirements and international standards. This was helped by the SBP's various policy measures, such as the deferment of principal payments and restructuring/rescheduling of loans as well as the strong capital and liquidity cushions of banks which were built over time under a prudent regulatory regime that duly includes Basel-III regulatory reforms. With the rise in advances and contained increase in non-performing loans (**NPLs**), the gross NPLs to loans ratio declined to 8.8 per cent. as at 30 September 2021 from 9.9 per cent. as at 30 September 2020. Due to the prudent approach adopted by banks during the COVID-19 pandemic, provisions (both specific provisions for classified assets and general provisions to cover prospective losses) increased, which resulted in an increase in the provisions coverage ratio (provisions to NPLs) to 88.9 per cent. as at 30 September 2021 as compared to 84.6 per cent. as at 30 September 2020. As a result, the level of net non-performing loans (**NNPLs**) decreased to Rupees 97.1 billion as at 30 September 2021 from Rupees 131.2 billion as at 30 September 2020, while NNPLs to net loans ratio decreased to 1.1 per cent. as at 30 September 2021 (from 1.7 per cent. as at 30 September 2020), which demonstrates a reduction in risks to the solvency of banks from delinquent loans.

Prudent risk-based regulations have helped the banking sector to maintain a strong solvency profile. CAR decreased to 17.9 per cent. as at 30 September 2021 from 19.5 per cent. as at 30 September 2020.

The earnings of the banking sector experienced a small decrease of 1.2 per cent. in the nine months ended 30 September 2021 as compared to the nine months ended 30 September 2020, with profit before tax amounting to Rupees 328 billion in the nine months ended 30 September 2021 as compared to Rupees 332 billion in the nine months ended 30 September 2020. The earnings indicators (return on assets and return on equity) also showed decreases in the nine months ended 30 September 2021 as compared to the nine months ended 30 September 2020.

The banking sector of Pakistan has attracted international banks and international investors in recent years. The commercial banking sector comprises both locally incorporated Pakistani banks and branch operations of foreign commercial banks. There are also Government-owned specialised banks that provide finance to agriculture, industry and cooperatives. 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 institutions and strategic investors, either directly or in collaboration with local partners or sponsors, can conduct banking business in Pakistan as a locally incorporated company, in general, with a maximum foreign ownership of 49 per cent. Foreign banks are also 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 branch operations in Pakistan have incorporated locally and also acquired other banks operating in Pakistan.

As at 30 September 2021, Pakistan's banks' liabilities consisted of (i) deposits and other accounts (76.3 per cent), (ii) borrowings from financial institutions (17.7 per cent), (iii) bills payable (1.2 per cent), (iv) subordinated loans (0.4 per cent), (v) deferred tax liabilities (0.1 per cent), (vi) liabilities against assets subject to finance lease (0.03 per cent) and (vii) other liabilities (4.2 per cent).

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 the people, focusing on budgeting, savings, investments, banking products and services, debt management and consumer rights and responsibilities.

As at 30 September 2021, approximately 40 institutions reported provision of microfinance services. These included 11 deposit taking MFBs and one Islamic banking institution (MCB Islamic Bank), while the rest were non-bank microfinance companies. Collectively, these microfinance providers served approximately 8.2 million borrowers in the first quarter of the 2021-22 fiscal year. This sector has achieved 18.1 per cent. growth in its aggregate loan portfolio, which grew by Rupees 56.2 billion to Rupees 365.5 billion during the September 2020 to the September 2021 period.

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

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

Increasing financial inclusion by providing an enabling environment for, and by promoting, Islamic banking remained an important strategic goal of the SBP and it forms an integral part of the National Financial Inclusion Strategy to serve those who prefer Islamic products or who are voluntarily excluded or underserved due to their religious beliefs. The SBP has been working to improve and strengthen legal and regulatory infrastructure in compliance with *Shari'ah* principles. It has adopted various initiatives to promote and develop the Islamic banking industry in Pakistan including:

- issuing licensing requirements, regulations for Islamic banking windows, criteria for conversion of conventional banking branches into Islamic banking branches and guidelines on *Shari'ah* compliance for Islamic banking institutions;
- issuing guidelines for conversion of an existing conventional bank into an Islamic bank to promote Islamic banking;
- issuing guidelines for DFIs to undertake *Shari'ah* compliant businesses and operations;
- strengthening of *Shari'ah* compliance through the issuance of a *Shari'ah* Governance Framework;

- the adoption or adaptation of *Shari'ah* and prudential standards issued by the Accounting and Auditing Organisation for the Islamic Financial Institutions (AAOIFI) and Islamic Financial Services Board (IFSB) respectively;
- revising the initial paid-up capital requirement for establishing an Islamic banking subsidiary from Rupees 10 billion to Rupees 6 billion. However, such subsidiaries are required to raise their paid-up capital (net of losses) to Rupees 10 billion within a period of five years from the date of commencement of their operations. Moreover, during the transitional period of five years, the Islamic banking subsidiary must adhere to the variable CAR requirement depending on the level of minimum paid-up capital (net of losses); the CAR requirement at Rupees 6 billion of minimum paid-up capital (net of losses) is 16 per cent, with the CAR requirement decreasing in a proportionate manner with every Rupees 1 billion increase in minimum paid-up capital (net of losses) to reach 12.5 per cent. once the minimum paid-up capital (net of losses) of Rupees 10 billion is achieved. Due to the impact of COVID-19, the CAR requirement of 12.50 per cent. has been temporarily reduced to 11.50 per cent;
- issuing three five-year strategic plans for the Islamic banking industry; the first was issued for the 2007-12 period and the second was for the 2014-18 period; while the third strategic plan is for the 2021-25 period;
- 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;
- assisting in the introduction of re-openings for the Government's domestic *Ijara* sukuk;
- introducing *Shari'ah*-compliant Standing Ceiling Facility – *Mudarabah*-based Financing Facility (MFF) and *Shari'ah*-compliant *Mudarabah*-based Open Market Operations-Injections (OMO-Injection) for Islamic banking institutions;
- introducing regulations for Lender of Last Resort (LOLR) facility under both the conventional and the *Shari'ah*-compliant modes;
- issuing detailed instructions for profit and loss distribution and pool management in Islamic banking institutions to improve transparency and disclosures and bring standardisation in Islamic banking institutions' profit and loss distribution policies and practices;
- issuing Islamic financing facilities as *Shari'ah*-compliant alternatives of conventional financing facilities to meet demand of faith sensitive clients such as: Islamic Export Refinance Scheme (IERS), Islamic Long-Term Financing Facility (ILTFF), Islamic Financing Facility for Renewable Energy (IFRE), Islamic Financing Facility for Storage of Agricultural Produce (IFFSAP), Islamic Refinance Facility for Modernisation of SMEs (IRFMS), Islamic Financing Facility for Low Cost Housing for Special Segments, Islamic SME Asaan Finance Scheme (I-SAAF), Islamic Refinance Scheme for Working Capital Financing of Small Enterprises and Low-End Medium Enterprises (IWCF) and Islamic Refinance and Credit Guarantee Scheme for Women Entrepreneurs (IRCGS-WE);
- allowing establishment of full-fledged Islamic microfinance banks, Islamic microfinance divisions of conventional microfinance banks, Islamic microfinance services by full-fledged

Islamic banks and Islamic microfinance services by conventional banks to encourage Islamic microfinance;

- introducing licensing and regulatory framework for digital banks, which allows Islamic variant while conventional variant may also offer Islamic banking services through Islamic windows;
- providing regular awareness, training and capacity building programmes;
- establishing three Centres of Excellence in Islamic Finance Education; and
- working with the Islamic Financial Services Board on various supervisory and regulatory aspects.

In addition, the Government has provided tax neutrality to Islamic financial institutions and their customers under the Finance Act 2017.

In recognition of its efforts, the SBP has been voted as the Best Central Bank for 2020 in promoting Islamic finance by a poll conducted by Islamic Finance News (IFN), an arm of REDmoney Group, Malaysia. The SBP has also won this award in 2018, 2017 and 2015. Moreover, Global Islamic Finance Awards (GIFA) has also awarded SBP as the "Best Central Bank of the Year 2020".

The Islamic banking industry in Pakistan has grown significantly since its re-launch in 2002. The asset base of the industry stood at Rupees 4,884 billion as at 30 September 2021 as compared to Rupees 3,809 billion as at 30 September 2020, representing growth of 28.2 per cent. Islamic banking deposits grew by 26.0 per cent. to Rupees 3,822 billion as at 30 September 2021 as compared to Rupees 3,034 billion as at 30 September 2020. The industry's asset base accounted for 17.0 per cent. of the overall banking system in the country as at 30 September 2021, while in terms of deposits its share in the country's banking system was 18.6 per cent. as at the same date. As at 30 September 2021, 22 Islamic banking institutions; five full-fledged Islamic banks and 17 conventional banks having standalone Islamic banking branches were providing *Shari'ah*-compliant products and services through their network of 3,651 branches along with 1,579 windows (Islamic banking counters at conventional branches) across the country.

Non-banking Financial Institutions. Other entities within Pakistan's financial sector include non-banking finance companies (such as housing finance companies, leasing companies, investment finance companies, asset management companies, investment advisors and REIT management companies), insurance companies and *modarabas*.

The SECP regulates non-bank finance companies and the regulatory framework is transparent, robust and based on the best international practices. The asset size of non-banking finance companies has increased at a steady pace over the past few years. As at 30 June 2021, the asset size of non-banking finance companies stood at Rupees 1,844.41 billion as compared to Rupees 1,412.42 billion as at 30 June 2020, representing an overall increase of 30.6 per cent. Total assets of non-bank finance companies by sector as at 30 June 2021 were as follows:

Sector	Number of entities	Total assets (Rupees million)	As percentage of total assets
Collective investment schemes/plans	282	1,086,705	58.9%
Asset management companies / investment advisors	25	45,459	2.5%
Discretionary /non-discretionary portfolios	-	338,329	18.3%
Pension funds	19	39,700	2.2%
REIT management companies	10	6,974	0.4%
Real estate investment trust	1	54,291	2.9%
Private equity companies	7	166	0.0%

Sector	Number of entities	Total assets (Rupees million)	As percentage of total assets
Private equity and venture capital funds	5	7,036	0.4%
Investment finance companies (investment banks)	13	68,505	3.7%
Non-bank microfinance companies	27	137,416	7.5%
Leasing companies	5	5,488	0.3%
<i>Modarabas</i>	28	54,347	2.9%
Total		1,844,416	100.0%

Source: SECP

In 2019-20, out of the 28 operational *modarabas*, 16 declared a cash dividend.

Insurance Sector. The insurance sector of Pakistan consists of 10 life insurance companies, including two public sector life insurance companies, 40 non-life insurance companies, including one public sector non-life insurance company and one state-owned non-life reinsurance company. There are two dedicated family (life) *takaful* operators and three dedicated general (non-life) *takaful* operators in the country (although one dedicated general *takaful* company stopped underwriting new business), while 29 conventional insurers have obtained authorisation to conduct the window *takaful* operations, which includes the only public sector reinsurance company.

The insurance sector showed consistent but modest growth in life and non-life insurance over the years. As at 31 December 2020, the total assets of the insurance industry amounted to Rupees 1,987 billion as compared to Rupees 1,785 billion as at 31 December 2019, showing a 11 per cent. increase in the aggregate asset size on a year-on-year basis. On the revenue side, in 2020, the industry underwrote total direct gross written premium (GWP) of Rupees 365 billion as compared to Rupees 344 billion in 2019, demonstrating a growth of approximately 6 per cent. in GWP. The reinsurance premium underwritten by the only non-life reinsurance company in Pakistan, which is owned by the Government, amounted to Rupees 16.89 billion in 2020.

According to sector-wide analysis, as at 31 December 2020, the life insurance industry owned assets amounting to Rupees 1,630 billion and the non-life insurance sector owned assets amounting to Rupees 356.7 billion (including reinsurance). On the revenue side, during 2020, the life insurance sector underwrote premium of Rupees 225 billion and the non-life insurance sector has recorded premium amounting to Rupees 122.6 billion (excluding reinsurance). Total assets of insurance companies as of 31 December 2020 and GWP of insurance companies in 2020 by insurance segment were as follows:

Insurance segments	Gross premium (Rupees million)	Total assets (Rupees million)
Life insurance	193,420	1,549,075
Family <i>Takaful</i>	9,796	36,953
Family Window <i>Takaful</i>	21,867	44,050
Total life insurance and family <i>Takaful</i>	225,083	1,630,079
Non-life insurance	110,051	304,564
General <i>Takaful</i>	2,207	3,678
General Window <i>Takaful</i>	10,998	13,193
Total non-life and general <i>Takaful</i>	123,257	321,435
Reinsurance	16,896	35,255
Total (excluding reinsurance)	347,737	1,951,104

Source: Insurance companies' annual financial reports for the year 2020

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

- an Electronic Bond Trading platform (EBND-Bloomberg) introduced to increase 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 with an additional platform to access the Pakistan's financial markets. In 2020, the EBND was also integrated with core payment systems of the SBP (PRISM) to reduce operational risk and for quick processing/settlement of secondary market trades;

- rules governing the primary dealer system have been revised to enhance the role and obligations of primary dealers;
- 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 are being conducted online via Bloomberg's auction system. This primary auction process was automated so as to reduce operational risk and to align Pakistan with other countries conducting similar auction processes. The auctions system is also integrated with core accounting and settlement systems of the SBP for smooth settlement of transactions;
- the SBP now permits trading of government securities on the Pakistan Stock Exchange in addition to the existing OTC markets (Bloomberg, Reuters and money market brokers);
- in 2020, non-competitive bids in GIS auctions have been allowed to broaden the investor base and the mechanism for re-opening of GIS has been put in place to increase outstanding volume and liquidity of issues in secondary market trading. In addition, Government has also initiated frequent issuance of sukuk to cater to the growing demand of the Islamic financial sector;
- in May 2018, the SBP, with concurrence of the Government, introduced Pakistan Investment Bond with floating rate with semi-annual coupon to assist the Government in increasing the maturity profile of its public debt and strengthening the suite of tradable government securities available on the market. Subsequently, in 2020, new variants of quarterly floating bonds were also introduced with quarterly reset and fortnightly reset frequencies; and
- currently, the SBP is pursuing development of a web portal that will provide investors into government securities with a digital platform to place bids during auctions of government securities. The envisaged web portal is also expected to enable registered users to sell and buy securities in the secondary market through their respective banks. This web portal is expected to also be available through mobile apps on Android and IOS. The purpose of creating such web portal is to broaden the investor base of government securities. The web portal is expected to be rolled out by December 2021.

Pakistan's Stock Exchanges. Prior to January 2016, three national stock exchanges existed in Pakistan: the Karachi Stock Exchange (**KSE**), which was established in 1949, the Lahore Stock Exchange (**LSE**), which was established in 1970 and the Islamabad Stock Exchange (**ISE**), which was established in 1993. The overwhelming majority of companies listed on the KSE also raised capital on the other two stock exchanges.

Following a series of discussions moderated by the SECP, in August 2015, representatives from the LSE, the ISE and the KSE signed a memorandum of understanding for the integration of all trading venues into a single securities marketplace. The Pakistan Stock Exchange Limited (the **PSX**) commenced operations on 11 January 2016 and has facilitated the growth of domestic capital markets in the years since.

The following table sets out certain figures with respect to the profile of PSX:

	Fiscal year ending 30 June				
	2017	2018	2019	2020	2021
Total listed companies ⁽¹⁾	560	558	544	530	532
New listed companies	5	6	2	0	5
Total listed capital ⁽²⁾ (Rupees billion)	1,317.2	1,297.4	1,340.3	1,391.5	1,442.6
Total market capitalization (Rupees billion)	9,522.4	8,665.0	6,887.3	6,529.7	8,297.3
Average daily traded volume (millions of shares)	363	187	164	211	552

(1) The total number of listed companies has been stated after two companies delisted in 2017, five companies delisted in 2018, 15 companies delisted in 2019, 14 companies delisted in 2020 and two companies delisted in 2021 while two companies merged in 2017, three companies merged in 2018, one company merged in 2019 and one company merged in 2021.

(2) The total listed capital has been stated after adjustment of capital of companies by way of merger, bifurcation and de-listing.

Source: Pakistan Stock Exchange

Various indices track market activity on the PSX, with the KSE-100 and the KSE-30 being two of the most commonly cited ones. The KSE-100 Index consists of 100 companies selected on the basis of sector representation and highest free-float capitalisation, which captures around 70 per cent. to 80 per cent. of the total free-float capitalisation of the companies listed on the PSX. It was introduced in November 1991 with a base of 1,000 points and is recomposed bi-annually. The KSE-30 Index includes the top 30 most liquid companies listed on the PSX based on the free float methodology. The base period of the KSE-30 Index is June 2005 and the base value is 10,000 index points.

The following table shows the movements in the KSE-100 Index since 2017, together with its level as at 31 December in each year from 2017 to 2020 and as at 30 June 2021.

	As at 31 December				As at 30 June
	2017	2018	2019	2020	2021
High	52,876.46	46,637.62	41,768.66	43,766.69	48,726.08
Low	37,919.42	36,663.38	28,764.63	27,228.80	34,889.41
Period end	40,471.48	37,066.67	40,735.08	43,755.38	47,356.02

Source: Pakistan Stock Exchange

The PSX offers various products and services for capital market investors and provides a modern infrastructure for transactions in both equity securities and fixed income securities. Corporate debt capital is raised through term finance certificates and private placements. In February 2014, the Government's debt securities were first listed on the PSX, although trading in such securities remains limited. There are 12 primary dealers appointed by the SBP that trade almost exclusively with banks. Further enhancements to the bond automated trading system (BATS) platform are expected to support liquidity in the public debt securities market.

In addition to Government debt securities, a total of 33 corporate debt issues with a combined outstanding principal amount of Rupees 532.84 billion were listed on the PSX as at 15 September 2021:

Type of Security	No. of Issues	Amount outstanding (Rupees billion)
Listed Term Finance Certificates	13	41.78
Privately Placed Term Finance Certificates including traded OTC	8	36.12
Sukuk ⁽¹⁾	12	464.79
Privately Placed Commercial Paper	0	0
Participation Term Certificates	0	0
Total	33	542.69

(1) Includes PHA Energy Sukuk.

Source: Pakistan Stock Exchange

The name of the National Commodity Exchange Limited was changed to the Pakistan Mercantile Exchange Limited (**PMEX**) in March 2011. The 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. A variety of contracts are traded across the metals, agriculture and energy asset classes. The PMEX currently offers a variety of contracts which include the commodities of gold, platinum, silver, copper, wheat, crude oil, natural gas, International Equity Indices and the Karachi Inter Bank Offer Rate (**KIBOR**).

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 in Pakistan.

The SECP has been actively pursuing a capital markets reform programme, introducing measures to strengthen, promote and develop capital markets in Pakistan. These measures proved successful in not only stabilising capital markets during periods of turbulence in the backdrop of the COVID-19 pandemic, but also proved to be instrumental in their speedy recovery, as evidenced by the resumption of trading momentum at the PSX, strengthened investor confidence, new listings and introduction of innovative solutions to better address the needs of the investors.

Major reforms introduced by the SECP are described below:

- *Measures to encourage capital formation:* to encourage new listings, enhance capital formation and facilitate ease of doing business, numerous refinements have been introduced in the regulatory framework. These improvements have been well received by the market and helped to encourage new listings, with 10 IPOs launched during the fiscal year 2020-21, the highest number in 10 years. Notable reforms include:
 - Introduction of an electronic IPO system: in coordination with Central Depository Company of Pakistan Limited (the **CDC**), the SECP has introduced electronic IPO system whereby investors can submit application for shares offered in an IPO electronically and make subscription payment through e-banking channels. This new system has received a positive response from investors in primary capital markets and, on average, more than 50 per cent. of applications for shares offered in IPOs are being submitted electronically. To allow institutional corporate investors and Roshan Digital Account holders (overseas to submit their applications electronically, the SECP, in coordination with PSX, has launched the PSX e-IPO system. Now all categories of investors can seamlessly apply through the electronic platform. This platform has enabled banks and brokers to submit electronic applications on behalf of their respective clients.
 - The SECP has allowed listed companies making secondary public offerings and initial public offering of other classes of shares to publish the prospectus/offer for sale document based on audited accounts older than eight months, subject to the condition that they are compliant with the requirements for annual and quarterly accounts, as specified under Companies Act. Amendments to this effect have been made in the PSX regulations. Moreover, in order to help issuers with the listing of other classes of their shares, the SECP has allowed listed companies, the ordinary shares of which are already listed on the stock exchange, to list other classes of their shares without making a public offer. Amendments to this effect have been made in the PSX regulations. Furthermore, eligibility criteria for listing of securities on the main board of the PSX have been revisited to further promote capital formation.
 - Framework for "direct listing": to facilitate listing of companies, especially state-owned enterprises, and to promote the culture of good governance among corporate

sector, the SECP, in coordination with the PSX, has introduced the regulatory framework for "direct listing". It is an alternative way of listing, whereby shares of a company are listed on the stock exchange without going through the cumbersome process of public offering and without mandatory appointment of an intermediary or intermediaries.

- Growth Enterprise Market: a Growth Enterprise Market (**GEM**) has been established at the PSX. Its objective is to promote capital formation by those companies that cannot comply with the main board's listing requirements (including green field projects), but which are aspiring to raise funds through capital markets. To facilitate listings on GEM, regulatory approvals are not required and the requirement of profitability has been waived. Moreover, listing fees are small when compared with main board listing. In order to facilitate and encourage the listing of securities on the GEM board of the PSX, the SECP has allowed banks and accounting and auditing firms to act as advisors with respect to the issuances listed on the GEM board. Furthermore, to increase outreach to investors, institutional investors and individual investors having net worth of greater than Rupees five million have been included in the definition of accredited investors eligible to invest in securities on the GEM board.
- Book building process for debt securities: to enable issuers of debt securities to discover spread through a competitive process, the SECP has introduced book building method for spread discovery. Recently, the government of Pakistan raised approximately Rupees 200 billion through the issuance of Pakistan Energy Sukuk-II using this method. The profit rate determined through the bidding process was minus 10 basis points in relation to the six months Karachi interbank offered rate (**Kibor**), which was the first time when the government of Pakistan was able to borrow at a rate less than Kibor. Moreover, in order to facilitate the issuance of government-guaranteed debt securities and public offerings of debt securities by state-owned enterprises having entity rating of BBB+ and above, the eligibility criteria for such public offerings have been relaxed.
- Revision of the market making framework: to address liquidity concerns of secondary debt market and provide an enabling environment for trading of government debt securities at the PSX, the market making framework has been revised. Non-broker members, including commercial banks, have been allowed to place quotes for both corporate debt and government debt securities at Bonds Automated Trading System (**BATS**) of the PSX. As of 30 June 2021, 10 financial institutions have been registered with the PSX as market makers for placing quotes on BATS for both corporate and government debt securities. As a result, the PSX witnessed trades on the BATS segment after a gap of almost a decade. Moreover, the SBP, in consultation with the SECP, has revised the primary dealer framework, whereby capital market investors can now directly participate/invest in government debt instruments and sukuk by registering with the CDC and National Clearing Company of Pakistan Limited (the **NCCPL**).
- Launch of exchange traded funds (**ETFs**): in order to provide investors with new and innovative investment solutions, four equity ETFs have been launched at the PSX for the first time. In addition, three other ETFs are currently in the approval stage, while one debt ETF has been granted in-principle approval. Due to their relatively low cost, transparency and ability to track the index, the ETFs are expected to increase the retail investor base in capital markets.

- Introduction of collateral management companies (CMCs) and electronic warehouse receipt (EWR) regime: in order to promote electronic trading and warehouse receipt financing of agricultural commodities, the SECP, after extensive consultation with stakeholders, promulgated CMC regulations to provide the necessary framework for commodities placed in warehouses to be used as collateral for bank loans and trading of EWRs on the futures exchange. Subsequent to notification of CMC regulations, one company has been registered as a CMC and has commenced its operations. The registered CMC is now issuing EWRs for certain agricultural commodities stored in its accredited warehouses.
- *Encouraging innovation:* in line with global best practices, the concept of "regulatory sandbox" has been introduced for the insurance sector, corporate sector and with respect to non-banking finance companies and capital markets to accelerate innovation by conducting limited-scale live tests of innovative products, services, processes and business models that have not been addressed under the existing laws. During 2020, the first cohort of innovations under this initiative received positive response and new ideas such as peer-to-peer (P2P) lending platform, technology-based crowd-funding platform, digital insurance, digital platform for mutual funds and robo-advisory have been approved for live testing. In 2021, the SECP has granted approval to additional innovative solutions, including, among others, parametric insurance, real estate asset tokenisation and unified digital distribution of mutual fund applications.
- *Enhanced investor outreach:* various measures have been implemented to facilitate the participation of retail investors in the market.
 - The Centralised Know Your Customer (KYC) Organisation has been successfully launched, which now acts as a KYC repository and independently verifies identification details of investors through biometric verification and mobile number verification.
 - Following the launch of the Non-Resident Pakistani Rupee Value Account under Roshan Digital Account initiative, non-resident Pakistanis can now invest in listed shares and open accounts with capital market intermediaries on the basis of the KYC information submitted to the banks.
 - As part of the SECP's digital transformation agenda, investors have been allowed to seamlessly open their accounts online with a broker from anywhere in the country without requiring physical submission of documents or visit to a broker. Online verification is conducted independently by the Centralised KYC Organisation.
 - The Professional Clearing Members Regulations became effective on 23 September 2020. These regulations contain licensing, conduct and operational requirements for a company functioning as a professional clearing member that provides clearing/settlement and custodial services to securities brokers and their customers. The first company to provide professional clearing members services has already been licensed under the name of Eclear Services Limited and commenced its operations.
- *Market development and stakeholder engagement:* the following measures have been initiated to foster market development:
 - Risk management reforms: a thorough review of the risk management framework was undertaken resulting in the removal of additional VAR-based margins that were imposed in 2017. Furthermore, additional haircuts on securities deposited as collateral with the NCCPL have been removed. The mechanism for imposition of liquidity

margins has been revisited and margins are only imposed on large positions while also taking into account the credit rating of clearing members. In addition, the pool of eligible collateral against margin requirements has also been increased.

- Introduction of market halts and widened circuit breakers: market halts have been introduced in the operation of the stock market whereby a five per cent. movement in the KSE-30 index upwards or downwards would trigger temporary suspension of trading at the stock exchange to prevent irrational price fluctuations and to give the market a cooling period. Furthermore, expansion of applicable scrip-based circuit breakers from the existing level of 7.5 per cent. to 10 per cent. along with introduction of multi-level market halts is expected to be implemented after the launch of new trading system at the PSX.
- Deliverable futures market reforms: to bring reforms in local market in line with international practices, improve efficiency and reduce systemic risk, the SECP has granted approval for 90 days deliverable futures contract (DFC) and revised the selection criteria for selection of securities for futures contracts. As a result, market participants now have the option to take positions in DFC contracts with 30, 60 and 90-days maturity periods. Trading in new contracts is expected to commence from 26 July 2021.
- Introduction of standard scale of brokerage commissions: the SECP has approved amendments in PSX regulations with respect to the introduction of standardised scale of brokerage commissions. The implementation of standard commissions is expected to help to enhance the quality standard of brokerage services and bring transparency and discipline in the market.
- Revision of Listed Companies (Code of Corporate Governance) Regulations, 2019: the corporate governance framework has been aligned with international best practices by moving from a "rule based" approach to a "comply or explain" regime.
- Launch of digital distribution platform for mutual funds: the CDC, through its subsidiary ITMinds Limited, has launched the pilot version of a digital platform named Emlaak Financials to support the mutual fund industry. Initially, the platform will function as a digital distribution channel for mutual funds. At a later point, its operations are expected to be expanded to cover other asset classes. The first phase of the platform was operationalised in January 2021 and involved the opening of *Sahulat Sarmayakari* accounts for individual low-risk customers and branchless banking account holders. The second phase of the platform covering all types of digital accounts is expected to become operational before the end of October 2021.
- Guidelines for issuance of "gender bonds": as a step towards promotion of gender equality and in recognition of women's role in the economy, the SECP has developed guidelines for issuance of gender bonds. These guidelines are aimed to help issuers of debt securities to diversify their sources of financing and provide an additional financial instrument to a particular class of investors.
- Issuance of guidance paper on convertible debt securities: to provide guidance to potential issuers and investors, a guidance paper has been published that explained the mechanics for issuance of convertible debt securities (CDS). CDS are a hybrid instrument that has both debt and equity features. The guidance paper mainly covers features of CDS, their benefits to investors, opportunities for issuers, criteria for issuance and steps involved in the process.

- Guidelines for issuance of green bonds: in order to promote green finance, make positive contribution towards protection of the environment, combat climate change, and in line with the World Bank's commitment to support the Government's Green Pakistan Programme, guidelines for the issuance of green bonds have been issued in line with international best practices.
- Regulations for next day netting facility product have been introduced to help clearing brokers and their clients to fulfil settlement obligations due on T+2 against purchases. Furthermore, regulations for a new product called "Early Payment Facility" was also introduced to help clearing brokers and their clients to obtain credit from the NCCPL on their net credit position on a future settlement date. This product is expected to help to obtain credit on net sale transaction on a trade date subject to pre-settlement delivery of securities sold.
- *Developments in Islamic finance market:* To provide *Shari'ah*-compliant financing option to stock market participants, *murabaha* share financing product has been introduced. Moreover, the following amendments have been introduced:
 - In order to include the Islamic finance segment into the regulatory framework, SECP Act 1997 has been amended through SECP (Amendment) Act, 2016 to empower the SECP to regulate and facilitate the growth of *Shari'ah*-compliant financial products in the financial services market. As part of this reform, the Companies Act, 2017 has been amended to include various concepts, including *Shari'ah* compliant company, *Shari'ah* compliant security, *Shari'ah* advisory, *Shari'ah* audit, certain disclosures for *Shari'ah* compliant companies and fit and proper criteria for any person's appointment or engagement for *Shari'ah* compliance purposes.
 - The SECP has issued *Shari'ah* Governance Regulations, 2018 that cover the areas of certification of *Shari'ah*-compliant companies and securities, *Shari'ah* advisory services, *Shari'ah* compliance, internal and external *Shari'ah* audit and *Shari'ah* screening criteria for *Shari'ah*-compliant companies and securities. As at 30 June 2021, three companies have obtained a certificate of *Shari'ah* compliance and eleven companies have obtained a certificate of *Shari'ah*-compliant securities. Furthermore, *Shari'ah* Advisors Regulations, 2017 and Sukuk (Privately Placed) Regulations, 2017 were simultaneously introduced by the SECP to strengthen, professionalise and improve the quality of *Shari'ah* advisory function and to allow for the issuance of sukuk to qualified institutional buyers through private placements. The SECP is also standardising the constitutive documents and introducing more *Shari'ah*, accounting, auditing and governance standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) with the goal of harmonisation of the diverse Islamic financial services under the mandate of the SECP. In 2016, a special tax rebate of two per cent. was introduced for *Shari'ah*-compliant listed manufacturing companies and tax neutrality for sukuk vis-a-vis conventional securitisation was introduced under Finance Act 2016.
- Improvements in AML / CFT ratings:
 - The APG has conducted the third mutual evaluation of Pakistan, which was adopted at the annual meeting of the APG in August 2019. The first Follow-Up Report *Mutual Evaluation of Pakistan* was released in September 2020, the second Follow-Up Report was released in May 2021 and the third Follow-Up Report was prepared in July 2021 and released in September 2021. Both the SBP and SECP actively contributed during and after the evaluation to ensure that all necessary measures are taken to address

identified gaps and achieve effectiveness. Pakistan is working with the APG to ensure that the actions taken by it to address the gaps are recognised and lead to improvement in ratings.

- As evidenced by the third Follow-Up Report prepared in July 2021 and released in September 2021, Pakistan has made significant improvement in ratings with respect to 26 recommendations. The APG assessors re-rated Pakistan as Largely Compliant/Compliant with respect to 24 recommendations involving the SECP and its regulated entities. The SECP made important contributions during the assessment process that eventually led to the re-ratings. A comparison of such re-ratings is provided below:

SECP Related Rating	Rating in the Second Mutual Evaluation of Pakistan (August 2019)	Rating in the Third Follow-Up Report (July 2021)
Compliant	0	8
Largely Compliant	0	16
Partially Compliant	22	1
Not Compliant	4	1

Financial Sector Regulation. Pakistan over the years has taken measures to enhance regulatory and supervisory regime and outreach of the banking sector including:

- strengthening supervision of the banking system, including measures to set up a deposit insurance system and a council of regulators so as to augment the overall financial stability framework in the country;
- 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 of regulations and guidelines and their update in line with international standards and best practices; through updates of guidelines and standards on corporate governance, risk management, preventive measures recommended by FATF, 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 and liquidity requirements for financial institutions, in line with the requirements of the Basel standards (including implementation of Basel-III capital standard with effect from 31 December 2013 and Basel III liquidity tools from 31 January and 31 March 2017) and promoting consolidation within the banking sector;
- enactment of an anti-money laundering law granting several government agencies the authority to investigate and prosecute incidents of money laundering or terrorist financing and strengthening the anti-money laundering and counter financing of terrorism regulatory regime for banks through issuance of regulations/instructions aligned with the FATF recommendations and best practices;
- promulgation of Corporate Restructuring Companies Act, 2016 enabling the establishment of corporate restructuring companies, *inter alia*, for acquisition, management and resolutions of non-performing assets of financial institutions and restructuring, revival and liquidation of commercially or financially distressed companies and their businesses;

- promulgation of Corporate Rehabilitation Act, 2018 enabling distressed corporate entities to enter into court supervised mediation with the creditors for approval of rehabilitation plan; thereby, providing a mechanism for rehabilitation and reorganisation of distressed entities;
- increasing growth in Islamic commercial banks, Islamic banking subsidiaries of conventional commercial banks 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 broad national financial inclusion strategy to address the challenges underlying the current low level of financial inclusion. Headline targets of this strategy, which was launched in May 2015 and updated by the Government in 2018, include (i) 65 million active digital transaction accounts including 20 million accounts by women; (ii) the achievement of deposit to GDP ratio of 55 per cent; (iii) extending finance to 700,000 SMEs with 17 per cent. of credit provided to private sector; (iv) serving six million farmers through digitalised solutions with disbursement of Rupees 1.8 trillion; and (v) the increase of the share of Islamic banking to 25 per cent. of the overall banking industry (assets and deposits) as well as a 30 per cent. share in the overall branch network;
- implementing a number of Government and donor funded programmes to enhance provision of financial services to the unbanked segments of the population. The SBP in partnership with the UK's Foreign, Commonwealth and Development Office has been implementing a financial inclusion programme to tackle financial exclusion among the poor and marginalised groups of the population through a variety of supply-side funds and credit enhancement facilities. Moreover, the SBP is also implementing World Bank funded Financial Inclusion and Infrastructure Project with a view to contribute towards financial inclusion by opening up access to financial services for the unbanked and under-banked by modernising financial infrastructure;
- implementing National Financial Literacy Programme for Adults (**NFLP**) and National Financial Literacy Programme for Youth (**NFLP-Y**) to tackle the lack of financial literacy among different segments of society, which has historically been a major constraint on advancing the financial sector. NFLP, being implemented in collaboration with partner institutions (banks, MFBs, MFIs and non-governmental organisations) aims to train one million beneficiaries by 2022 and focuses on disseminating information on basic financial concepts, products and services to the people; focusing on budgeting, savings, investments, banking products and services, debt management and consumer rights and responsibilities. Moreover, NFLP-Y, being implemented with partner educational institutions, aims to train 1.6 million beneficiaries of different age brackets by 2023.
- revising the SBP's Branch Licensing Policy to facilitate the provision of financial services in rural and under-served areas;
- 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.

Strengthening Financial Stability. The SBP is designing and implementing a Macro-Prudential Policy Framework (**MPPF**) to seek to ensure the stability of the financial sector in line with the best international practices. In recent years, it has made material progress in terms of establishing a formal

institutional setup, strengthening its systemic risk assessment capacity and communications and calibrating the necessary policy toolkit, including Basel III capital and liquidity standards.

The SBP has thus far introduced the following initiatives with respect to MPPF:

- the SBP's strategic plan "Vision 2020" envisages strengthening of financial stability regime as one of its key goals;
- the SBP has made significant progress towards institutionalising the financial stability framework in Pakistan. This includes the formation of the Financial Stability Department, the Financial Sector Executive Committee within the SBP and the establishment of the Council of Regulators (a joint forum of the SBP and the SECP). The scope and mandate of these forums include deliberations on macro-financial risks and their ramifications for the financial and real sectors of the economy;
- the establishment of the National Financial Stability Council (NFSC) in May 2020 which includes the SBP, the SECP and the Ministry of Finance. The NFSC is expected to discuss issues related to systemic risks, particularly those having cross-market and stability implications and suggest a coordinated policy response to address the threats to the financial system stability;
- memoranda of understanding with 23 regulatory authorities, including countries in which Pakistani banks have operations, in order to increase bilateral cooperation in banking supervision and exchange of supervisory information with other countries;
- strengthening and enhancing its assessment of pro-cyclical systemic risk capabilities through substantial improvements in its macro stress-testing regime (including revising its stress testing guidelines) to capture the macro-financial interlinkages and broaden the scope and coverage of the regime to include Islamic banks, Islamic bank branches and MFBS;
- efforts to contain systemic risk by developing a framework for designation and enhanced supervision and regulation of domestic systemically important banks (**D-SIBs**). Additional supervisory measures for sample D-SIBs include preparing comprehensive risk appetite framework, conducting macro-stress tests/scenario analysis, preparing recovery plans and enhanced supervisory engagement with the top management and boards of the designated banks. Additional regulatory requirements, which are applicable to designated D-SIBs, include higher loss absorbency requirement in the form of common equity Tier 1 capital over and above the standard capital requirements. The SBP has designated three large banks as D-SIBs. In addition, branches of global systemically important banks operating in Pakistan are required to hold additional common equity Tier 1 capital against their risk-weighted assets in Pakistan at the rate applicable to the respective principal global systemically important bank;
- monitoring the contagion risks faced by banks from their affiliated entities (including non-financial entities) and supervision of banks on consolidated basis in coordination with the SECP;
- launching various crisis preparedness initiatives as per international standards. In particular, in December 2019, the SBP conducted the first joint industry-wide business continuity planning drill under a carefully designed scenario, which generated information regarding readiness/preparedness of business continuity planning/disaster recovery sites and effectiveness of business continuity plans that has been helpful in evaluating the industry's future response to a crisis. Furthermore, as per the requirement of the SBP Act, 1956, the SBP is working on the development and implementation of an operational framework for the lender of last resort facility;

- with the objective of compensating small and financially unsophisticated depositors (to the extent of protected deposits), the Deposit Protection Corporation has been established as a wholly-owned subsidiary of the SBP under the Deposit Protection Corporation Act, 2016. The Deposit Protection Corporation commenced its business with effect from 1 June 2018;
- with the assistance of Toronto Centre under the long-term country engagement programme, the SBP has developed and implemented the a risk-based supervision (**RBS**) framework. The RBS framework, being a forward-looking framework, is expected to help in better understanding of a bank's risk profile with reference to both external and internal risks. This, in turn, will help the SBP in early identification of problems, efficient deployment of supervisory resources towards riskier areas and initiating prompt corrective actions. Before the implementation of the framework, pilot test in selected banks was conducted to fine tune the developed methodologies for the effective implementation of the RBS framework; and
- with respect to disclosures of financial risk assessment, the SBP has been regularly publishing the annual "Financial Stability Review", semi-annual "Performance Review of the Banking Sector" and quarterly "Compendium: Statistics of the Banking System". Furthermore, the SBP has launched its systemic risk survey that helps to gauge the risk perceptions and confidence of the respondents in the stability of the financial system. In order to assess the implications of the COVID-19 pandemic for financial institutions and to firm up policy response, the SBP conducted two surveys in March and April 2020. Based on the survey results, the SBP issued necessary instructions and guidelines to ensure the availability and continuity of financial services.

The SBP supervises the financial derivatives market and issued the Financial Derivative Business Regulations (**FDBR**) in 2004 that contain the regulatory framework for over the counter financial derivatives. Under the FDBR, 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 foreign currency options, forward rate agreements and interest rate swaps to their customers for hedging the underlying exposure. If any ADD or NMI intends to execute any derivative transaction, which is not expressly covered in the FDBR, prior permission of the SBP is required. Further, any other bank, which is not an ADD or NMI, will also need to seek an approval from the SBP prior to entering into a derivative transaction.

Anti-Corruption and Anti-Money Laundering. Pakistan ranks high on the published lists of countries with high levels of corruption. The Government has taken a number of measures to reduce corruption in the public and private sectors. The Anti-Money Laundering Act 2010 was amended in September 2020 to address all the gaps identified in Pakistan's Mutual Evaluation Report, 2019. This offence is punishable with imprisonment of not less than one year (but imprisonment may be extended for up to ten years) and a fine in the amount of up to 25 million Rupees, as well as the forfeiture of property involved in money laundering or property of corresponding value. The fine may be increased up to 100 million Rupees in case of a legal person.

A financial monitoring unit (**FMU**) was established in 2007 to receive, analyse and disseminate to the investigation and supervisory authorities information concerning suspected proceeds of crime and alleged money laundering offences or transactions related to terrorism and terrorist financing. The FMU also participates in regional and global efforts against money laundering and combatting the financing of terrorism.

NAB is constituted 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 NAB and the Accountability Courts to hear specific corruption-related cases. NAB has made significant progress in prevention of corruption. Working with the total headcount of 2,407 officers/officials as of 30 June 2021, including

427 investigators, its conviction rate was 60.1 per cent in the six months ended 30 June 2021 as compared to 60.8 per cent in 2020, 62.7 per cent in 2019 and 63.8 per cent in 2018. Recoveries made by NAB from its formation in 1999 until 30 June 2021 amounted to Rupees 816.8 billion in total. Its budget in 2020-21 was Rupees 5,183 million as compared to was Rupees 9,084 million in 2019-20, Rupees 3,603 million in 2018-19 and Rupees 2,554 million in 2017-18. A total of 318 inquiries/investigations were authorised in the six months ended 30 June 2021 as compared to 542 in 2020, 895 inquiries/investigations in 2019 and 1,192 inquiries/investigations in 2017. NAB is now concentrating on mega and more significant cases as its primary mandate to curb the menace of corruption.

In compliance with its international commitments and obligations, Pakistan has ratified the United Nations Convention against Corruption (UNCAC) in August 2007, wherein NAB is a designated central authority of Pakistan. NAB cooperates with other member countries on corruption-related matters by providing legal assistance with respect to their requests under UNCAC. NAB has signed several memorandums of understanding/protocols on cooperation with foreign countries, while other memorandums of understanding are being negotiated. Pakistan has 34 bilateral treaties with other countries for extradition of fugitives. NAB has played a leading role in UNCAC review mechanism for the first review cycle and is also conducting the second review cycle.

Despite the progress and various reform efforts, Pakistan continues to take steps to address corruption. See *"Risk Factors – Risks factors relating to the Government – Failure to adequately address actual and perceived risks of corruption, money laundering and terrorist financing may negatively affect Pakistan's economy and ability to attract foreign direct investment"*.

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

- amendments to the Anti-Terrorism Act 1997 to bring Pakistan's terrorist financing regime in line with the standards of the FATF (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 and regulators.

Pakistan has also taken preventive measures, such as:

- the SBP has undertaken measures to prevent the use of banking channels for money laundering, terrorist financing, proliferation financing and other illicit activities. The anti-money laundering, combatting the financing of terrorism and countering proliferation financing regulations issued by the SBP cover all important aspects of preventive measures required by FATF recommendations, including risk based approach, customer due diligence, additional measures regarding relationship with Politically Exposed Persons and NGOs/Charities, correspondent banking, wire transfer requirements for sending /receiving funds, reporting of suspicious transactions under anti-money laundering law, record-keeping of banking transactions, measures to implement Targeted Financial Sanctions (TFS) against designated persons, measures against High Risk Jurisdictions and other requirements on internal controls, policies, compliance, use of new technologies, audit and training, The instructions of the SBP are enforced through a systematic process of risk-sensitive on-site inspections and off-site surveillance;
- the SBP has issued comprehensive guidelines on taking a risk based approach and requires banks and DFIs to improve their systems in line with best standards and practices as propounded

by the FATF recommendations and Basel Core Principles. The guidelines advise banks and DFIs 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. The SBP instructions seek to ensure provision of adequate resources (human resources and systems) commensurate with risks assessed by entities through their internal risk assessment processes; and

- in addition, the SBP has also issued guidelines on TFS under UN Security Council Resolutions. The guidelines provide further clarity regarding the requirements of the TFS regime of the UN Security Council on terrorism financing and proliferation financing by spelling out the operational mechanism for implementation of sanctions in Pakistan.

Non-bank financial institutions in Pakistan, as regulated by the SECP, are subject to similar anti-money laundering and counter financing of terrorism requirements.

Owing to shortcomings in effectively addressing terrorist financing risks, Pakistan was placed in the FATF's *Jurisdictions under Increased Monitoring* commonly known as the "Grey List" in June 2018. Following this event, the Government committed to the 2018 action plan, which includes measures to:

- properly identify and assess terrorist financing (TF) risks posed by entities as given in the FATF action plan;
- complete the sectoral risk assessment on cash couriers;
- implement targeted financial sanctions without delay (for example, asset freezing and ongoing prohibitions to provide funds and financial services);
- apply a risk-based supervision of financial institutions (for example, on-site inspection schedules and off-site assessments) taking into account TF risks;
- demonstrate enforcement against violations of TF sanctions; and
- improve inter-agency coordination (including between federal and provincial authorities) in combating TF risks, including TF investigations and prosecutions.

The Government is moving to implement all measures to support the country's exit from the FATF list. The National Executive Committee (NEC) is monitoring and coordinating efforts to implement the FATF action plan.

Since inclusion in the Grey List in June 2018, Pakistan has undertaken considerable actions to implement the 2018 action plan, while undergoing periodic reviews by the FATF. In particular, a joint sitting of Pakistan's Parliament passed three crucial bills in September 2020 (the Islamabad Capital Territory Waqf Properties Bill, the Anti-Money Laundering (Second Amendment) Bill, 2020 and the Anti-Terrorism Act (Amendment) Bill, 2020), as part of the Government's efforts to comply with the 2018 action plan. The Islamabad Capital Territory Waqf Properties Bill is aimed at proper management, supervision and administration of *Waqf* properties in the territorial limits of Islamabad Capital Territory. The Anti-Money Laundering (Second Amendment) Bill, 2020 is aimed at streamlining the existing anti-money laundering law in line with international standards prescribed by the FATF. According to the Anti-Terrorism Act (Amendment) Bill, 2020, the investigating officer, with the permission of the court, can conduct covert operations to detect terrorism funding, track communications and access computer systems using the latest technologies for 60 days. The court may extend the 60-days period for another 60 days. As at October 2021, Pakistan has been rated "largely addressed" on 26 of 27 action items in

the 2018 action plan. At its last plenary meeting in October 2021, the FATF encouraged Pakistan to continue to make progress to address as soon as possible the one remaining counter financing of terrorism-related item by continuing to demonstrate that terrorist financing investigations and prosecutions target senior leaders and commanders of UN designated terrorist groups.

Moreover, the APG has conducted the third mutual evaluation of Pakistan, which was adopted at the annual meeting of the APG in August 2019. The first Follow-Up Report *Mutual Evaluation of Pakistan* was released in September 2020, the second Follow-Up Report was released in May 2021 and the third Follow-Up Report was prepared in July 2021 and released in September 2021. As evidenced by the third Follow-Up Report prepared in July 2021 and released in September 2021, Pakistan has made significant improvement in ratings with respect to 26 recommendations. For more information, see "*Financial Services – Securities Market Reforms – Improvements in AML/CFT ratings*". In response to deficiencies identified in Pakistan's 2019 APG Mutual Evaluation Report, in June 2021, Pakistan provided further high-level commitment to address these strategic deficiencies pursuant to a new action plan that primarily focuses on combating money laundering. Since June 2021, Pakistan has taken swift steps towards improving its anti-money laundering/counter financing of terrorism regime, including by enacting legislative amendments to enhance its international cooperation framework; demonstrating designated non-financial business and professions monitoring for proliferation financing targeted financial sanctions and designated non-financial business and professions supervision commensurate with the risks; and applying sanctions for non-compliance with beneficial ownership requirements. The FATF asked Pakistan to continue to work to address its other strategically important anti-money laundering/counter financing of terrorism deficiencies, in particular by: (i) providing evidence that it actively seeks to enhance the impact of sanctions beyond its jurisdiction by nominating additional individuals and entities for designation at the UN; and (ii) demonstrating an increase in money laundering investigations and prosecutions and that proceeds of crime continue to be restrained and confiscated in line with Pakistan's risk profile, including working with foreign counterparts to trace, freeze and confiscate assets. Both the SBP and SECP actively contributed during and after the evaluation to ensure that all necessary measures are taken to address identified gaps and achieve effectiveness.

Pakistan is working with the APG to ensure that the actions taken by it to address the gaps are recognised and lead to improvement in ratings.

Agricultural Sector

Agriculture is still the largest sector of the economy of Pakistan in terms of labour participation and, therefore, the livelihood of the majority of the population directly or indirectly depends on it. During the last few decades, its contribution to GDP has gradually decreased to 19.19 per cent. in 2020-21. However, there is a lot of potential in the sector to increase its share in GDP through the increased utilisation of the latest agricultural technologies.

Realising the potential of agriculture, the Government has introduced the Prime Minister Agriculture Emergency Programme with an estimated funding of Rupees 277 billion that seeks to provide a significant boost to the agriculture and livestock sectors. The objectives of the programme include improvements in water availability, soil conservation and shrimp farming. In addition, the programme also includes establishing new agriculture markets, which is expected to help to protect farmers from exploitation by middlemen.

The COVID-19 pandemic poses extraordinary challenges for almost all sectors of the economy of Pakistan, including agriculture. The need to maintain food security and livelihoods has also gained more importance following the outbreak of the pandemic. The cereal markets are currently expected to perform well despite uncertainties over the impact of COVID-19. As logistical issues may pose challenges to food supply, the Government believes it is important to take measures for boosting

agriculture production, which is expected to contribute to mitigating the socio-economic impact of COVID-19.

The following table sets out information on trends in agriculture growth rates from 2016-17 to 2020-21:

	2016-17	2017-18	2018-19 ⁽¹⁾	2019-20 ⁽²⁾	2020-21 ⁽³⁾
Agriculture	2.2	4.0	0.6	3.3	2.8
Crops	1.2	4.7	(5.0)	5.5	2.5
Important crops	2.6	3.6	(7.7)	5.2	4.7
Other crops	(2.5)	6.3	2.6	8.1	1.4
Cotton ginning	5.6	8.8	(12.7)	(4.8)	(15.6)
Livestock	3.0	3.7	3.8	2.1	3.1
Forestry	(2.3)	2.6	7.3	3.6	1.4
Fishing	1.2	1.6	0.8	0.6	0.7

(1) Final

(2) Revised

(3) Provisional

Source: Pakistan Economic Survey 2020-21

Over the years livestock has emerged as the largest sub-sector in agriculture. It contributed 60.1 per cent. to the agriculture value addition and 11.5 per cent. to GDP during 2020-21. More than eight million rural families are engaged in livestock production and derive more than 35-40 per cent. of their income from this sector. The Government is now focusing on this sector for economic growth, food security and poverty alleviation in the country. Gross value addition of livestock increased from Rupees 1,461 billion in 2019-20 to Rupees 1,505 billion in 2020-21, an increase of 3.0 per cent.

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

The crops sub-sector includes important crops, other crops and cotton ginning. The following table sets out information regarding the production volumes of Pakistan's important crops for the periods indicated:

	2016-17	2017-18	2018-19	2019-20	2020-21 ⁽¹⁾	2019-20 / 2018-19	2020-21 ⁽¹⁾ / 2019-20
	(thousand tons, unless otherwise stated)					(% change)	
Cotton (thousand bales)	10,671	11,946	9,861	9,148	7,064	(7.2)	(22.8)
Sugarcane	75,482	83,333	67,174	66,380	81,009	(1.2)	22.0
Rice	6,849	7,450	7,202	7,414	8,419	2.9	13.6
Maize	6,134	5,902	6,826	7,883	8,465	15.5	7.4
Wheat	26,674	25,076	24,349	25,248	27,293	3.7	8.1

(1) Provisional

Source: Pakistan Economic Survey 2020-21

With respect to other crops, which accounted for an 11.7 per cent. share in the agricultural sector, the production of gram decreased by 47.6 per cent. in 2020-21 as compared to 2019-20 on account of decline in area under cultivation, yield and unfavourable weather conditions. The production of bajra and jowar also witnessed a decrease of 30.7 per cent. and 20.0 per cent, respectively, due to a decrease in area under cultivation. The production of barley, rapeseed and mustard and tobacco remained at the last year's production level.

During 2020-21, the performance of the agriculture sector improved as compared to 2019-20. However, the challenges due to climate change, pest attacks and shortage of water kept agriculture production below its potential. One key issue related to agriculture is that the farmers have limited direct access to the market, due to which the role of middleman remains crucial. Farmers normally do not receive fair market price for their produce. In terms of potential, the agriculture sector has the capacity to not only produce for the domestic population, but to have surplus production for exports, which can ensure food security as well as contribute towards foreign exchange earnings.

Industrial Sector

Pakistan's industrial sector accounted for 19.12 per cent. of GDP in 2020-21. 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 gas distribution and (iv) construction.

In 2019-20, the overall output of LSMI decreased by 9.8 per cent. There are a number of factors which have contributed to the negative growth in output of LSMI in 2019-20. Pakistani Rupee depreciated by 3.9 per cent. during the July 2019 to March 2020 period, which increased the cost structure of industries in general and for those relying on imported raw materials in particular. Furthermore, policy rate was kept high to contain inflation, which discouraged investment. Subdued demand further hampered the overall production and performance of the industry. Certain sector-specific issues also contributed to the decline of output of LSMI. Automobile sector alone accounted for major portion of contraction in the output of LSMI. Its prices witnessed multiple upward revisions due to Pakistani Rupee depreciation, which held the potential buyers from making purchases. The shift in power generation away from furnace oil has reduced the demand for furnace oil and adversely affected the coke and petroleum industry output. Upward adjustment in electricity prices dented domestic steel producers' margins.

However, in the fiscal year 2020-21, the overall output of LSMI grew by 14.9 per cent. as compared the fiscal year 2019-20, in large part due to various measures taken by the Government to support the industrial sector. Such measures include the special package for the construction sector and subsidy for the Naya Pakistan Housing Scheme, electricity tariff reduction for industrial customers, relaxation of excise duties on textile items, additional support for exporters and investors announced by the SBP and certain exemptions from custom duties.

The following table sets out the growth of major LSMI sectors during the fiscal year 2020-21 as compared to the fiscal year 2019-20.

Manufacturing Sector	Weight	Fiscal Year 2019-20	Fiscal Year 2020-21
		(% growth)	
Textiles	20.9	(10.39)	15.31
Food, beverages and tobacco	12.4	(1.81)	11.01
Coke and petroleum products	5.5	(20.10)	18.05
Pharmaceuticals	3.6	(2.68)	12.03
Chemicals	1.7	(4.89)	19.19
Non-metallic mineral products	5.4	(2.17)	26.66
Automobiles	4.6	(44.58)	51.06
Iron and steel products	5.4	(17.36)	15.58
Fertilisers	4.4	4.39	7.23
Electronics	2.0	(33.28)	(4.43)
Leather products	0.9	(9.12)	(26.45)
Paper and board	2.3	0.36	3.35
Engineering products	0.4	(18.71)	(15.37)
Rubber products	0.3	2.79	(14.99)
Wood products	0.6	(39.26)	(39.35)

Source: Pakistan Bureau of Statistics

In July-October 2021-22, the output of LSMI increased by 3.56 per cent. as compared to July-October 2020-21.

The textiles sector is the most important manufacturing sector of Pakistan and has the longest production chain, with inherent potential for value addition at each stage of processing. The sector contributes nearly one-fourth of industrial value-added and provides employment to about 40 per cent. of industrial labour force. Barring seasonal and cyclical fluctuations, textiles products have maintained an average share of approximately 60 per cent. in national exports.

According to the International Cotton Advisory Committee, Pakistan is the fifth largest producer of cotton and third largest consumer of cotton in the world. In addition, Pakistan is the world's second largest cotton yarn exporter and third largest cotton cloth manufacturer and exporter.

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 that have been developed by Pakistan's own industry.

Since 1 January 2014, all of the products of interest to Pakistan for export purposes have duty free access to all member states of the EU. This duty free access for many products is available under the EU's "Special Incentive Arrangement for Good Governance and Sustainable Development", which is also popularly known as GSP+. Because of GSP+, Pakistan has access to the EU market which is similar to what Bangladesh, Vietnam and Turkey have and is better than market access India and China have. Pakistan had signed and ratified 27 United Nations conventions prior to getting the GSP+ status back in 2014. In September 2021, Pakistan's GSP+ status was extended by the European Union until 2024, with six new conventions introduced. According to a statement by the European Commission, the new conventions pertain to greater accessibility for people with physical disability, the eradication of child labour and environmental safety. Pakistan's exports to EU countries during the fiscal year 2020-21 reached U.S.\$6,671 million as compared to U.S.\$6,084 million in the fiscal year 2019-20.

The textile sector was showing signs of stability in the pre-COVID-19 period of 2019-20 as it posted positive growth. During the July 2019 to February 2020 period, textile production rose by 0.4 per cent, as compared to 0.1 per cent. contraction in the same period of the prior fiscal year. Market-based exchange rate regime, continued concessionary access to the EU and U.S.-China trade tensions all played a crucial role in supporting the competitiveness of the domestic textile industry.

The signs of recovery in the textile sector were evident further from exports data, which showed the highest growth in the first half of the fiscal year 2019-20 since fiscal year 2013-14. In particular, activities in the apparel segment picked up considerably. Since China faced the onset of COVID-19 and subsequent lockdowns earlier than other countries, Pakistan, along with a few other textile exporters, managed to increase its share in some western markets at the start of the first quarter of fiscal year 2019-2020. However, this proved to be short-lived, as the Government imposed lockdowns to contain the spread of the virus by late March 2020. Export orders eventually dried up. With both demand and supply affected, the textile sector could not keep up its growth momentum and hence contracted sharply. The adverse impact of COVID-19 resulted in an output contraction of 10.4 per cent. in 2019-20, compared to the almost zero-growth in the previous fiscal year.

In the fiscal year 2020-21, the output of the textile sector increased by 15.31 per cent. as compared to the negative growth of 10.39 per cent. in the fiscal year 2019-2020.

Pakistan is one of the world's top ten exporters of textiles according to the World Trade Organisation's World Trade Statistical Review 2021, where it ranked eighth with a 2.0 per cent. share in world exports in 2020.

Energy in Pakistan

Energy is an integral part of the economic order of Pakistan because energy demand and economic growth share a tight bond. Pakistan is overcoming a severe energy crisis that has directly and indirectly affected all sectors of the economy especially in terms of the evolving energy mix. The energy-side bottlenecks have corroded the economy of the country in the past. To fix such congestions and bottlenecks for the smooth delivery of energy services, massive projects were added to the supply side in between 2013 and 2021, adding a cumulative power generation capacity of 17,206 MW. Although the added capacity has helped to ease the bottlenecks in generation, the transmission and distribution-side congestion and inefficiencies have hampered the sustained delivery of energy services. In addition, the higher energy prices at present as well as in the near future are a by-product of such aggressive capacity additions during the 2013 to 2021 period.

The Prime Minister formed task force on energy to work on immediate, medium-term and long-term policy measures with the aim of providing affordable and sustainable energy for all. In addition, the National Transmission and Dispatch Company has prepared and submitted an Indicative Generation Capacity Expansion Plan 2020-30 to the National Electric Power Regulatory Authority (NEPRA), the electricity regulator. This expansion plan is a part of the Integrated Energy Plan, which will include power, as well as petroleum demand and supply plans for the period until 2030. The plan envisages transformation of power generation sector from thermal production to renewables and nuclear power.

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

	2017	2018	2019	2020	2021
			(MW)		
Installed capacity	29,714	33,836	36,066	36,116	37,361
Dependable capacity ⁽¹⁾	24,798	29,424	32,767	32,246	33,816
Peak supply	19,070	20,795	22,696	23,034	24,562

(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: National Power Construction Center, Ministry of Energy

As of 31 July 2021, Pakistan's installed capacity reached 37,361 MW.

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.

The total stock of circular debt amounted to Rupees 2,280 billion as at 30 June 2021. In recent years, it has significantly constrained the availability of electricity and slowed Pakistan's economic growth.

Pakistan has successfully removed bottlenecks in electricity generation in 2013-21 with adding a cumulative power generation capacity of 17,206 MW. However, congestion, inefficiency and lack of infrastructure on the transmission and distribution side of the supply chain have hampered sustained delivery of electricity and energy services.

The Government is preparing a comprehensive circular debt management plan in collaboration with international partners with quarterly targets for losses, collection and accumulation of arrears (flow) by DISCOs. Elements of this plan include: (i) a monitoring and incentive framework for strengthening the sector's performance, including bill collection and distribution losses; (ii) improving distribution companies' governance; (iii) reducing or eliminating implicit government subsidies to particular economic sectors; (iv) assessing investment needs in the sector and designing an investment plan and (v) addressing the stock of circular debt to service the interest on accumulated power sector debt. The Government intends to use this plan as a blueprint for future reforms in the sector.

Power Sector Reform. For the description of the Government's plans to launch a comprehensive energy sector reform, see "*Economic Reform Programme and Key Policy Objectives – Energy Sector Policies*" above.

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 2013-2021, a significant additional generation capacity has been brought online. These additions have significantly reduced the electricity shortfall situation and reduced load-shedding.

The following table sets out the details of the approved and recently completed power projects and other projects that have financial arrangements in place (see "*Overview of Pakistan's Economy – China-Pakistan Economic Corridor (CPEC)*" above for CPEC project details):

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	Completed
Tarbela IV extension	1,410	Hydro-electric	700	Completed
Tarbela V extension	1,250	Hydro-electric	Under estimation	-
Mangla power station upgrade	310	Hydro-electric	484	2023
Keyal Khwar Hydropower project	128	Hydro-electric	316	2021
Chashmu Nuclear Power Plant Units III & IV	680	Nuclear	1,809	Completed
Dasu (Phase I)	2,160	Hydro-electric	8,500	2023
Jamshoro Coal Power Plant	1,320	Coal	1,700	2021
Balloki	1,200	LNG	798	Completed
Haveli Bahadur Shah	1,200	LNG	854	Completed
Bhikki	1,180	LNG	770	Completed
Diamer Bhasha Dam	4,500	Hydro-electric	13,800	2024
Total	18,507			

Source: Ministry of Finance

Energy Supply and Consumption

Primary Energy Supply. Total primary energy supply was at 86.3 million tons of oil equivalent (MMTOE) in 2018, registering growth of 8.4 per cent. from 2017 due to the introduction of newer energy supplies such as LNG imports, renewable energy, coal and nuclear power projects. Indigenous natural gas is the biggest source of primary energy in the country with a share of 34.6 per cent. (29.8 MMTOE), LNG imports continue the increasing trend with an 8.7 per cent. share of the energy mix in 2018 up from 5.6 per cent. in 2017. Oil remained second with 31.2 per cent. (26.9 MMTOE) showing a decrease of 1.68 per cent. from 2017 supply of 27.36 MMTOE.

Other major sources are hydro and coal with 6.6 per cent. and 12.7 per cent. share of the energy mix, respectively. Coal supplies have increased to record high of 10.9 MMTOE, the increase is to meet coal

demand of new coal power plants built as part of CPEC projects and the cement industry. Nuclear also increased its share in the energy mix to 2.7 per cent, with an energy supply of 2.36 MMT0E. The share of hydro, nuclear and renewables is expected to continue to increase based on Government's plans of establishing a rational energy mix of cheaper, cleaner and sustainable energy supplies.

In terms of consumption, primary energy has mostly been consumed by the power sector (38 per cent), followed by the transport sector (22 per cent) and the industrial sector (16 per cent). The residential sector accounted for 8 per cent. The fertiliser sector consumed 5 per cent. of the primary energy.

Oil and Gas Resources. As at 30 June 2021, Pakistan's oil proven and probable reserves (balance recoverable) amounted to 249.05 million U.S. barrels, a decrease of approximately 8.3 per cent. from 271.45 million U.S. barrels as at 30 June 2020. Gas proven and probable reserves (balance recoverable) amounted to 20.95 trillion cubic feet, slightly up from 20.9 trillion cubic feet in 2020.

Pakistan offers a very significant potential for the exploration and production of oil and gas. Around 96 per cent. of the country's exploration wells have been drilled in two basins that are the "Kohat and Potwar Basin" and the "Lower and Middle Indus Basin". Only 4 per cent. of the remaining exploration wells have been drilled in other basins. Vast areas in the provinces of Balochistan, Punjab and Khyber Pakhtunkhwa remain unexplored.

Upstream (Exploration and Production) Sector. Recently, the Government has initiated a dialogue on reforms in the institutional structure of the upstream petroleum sector. A bill has been approved by the Cabinet Committee on Legislative Cases and ratified by the Cabinet to establish the Pakistan Petroleum Upstream Regulatory Authority as an independent national upstream regulator for the petroleum sector.

Pakistan's exploration and production sector has a mix of national and international companies (24 active companies as of June 2021) operating independently. Seismic activities have increased with approximately 3,218 line kilometres of 2-D seismic data and 872 square kilometres of 3-D seismic data acquired in 2020-21. Similarly, 25 exploratory wells and 25 appraisal/development wells were spudded in 2020-21.

Oil and gas production in 2020-21 amounted to 75,530 barrels per day and 3,597 million cubic feet per day. Oil and Gas Development Company Limited remains the largest exploration and production company in the country, with a 47.7 per cent. and 29.2 share of the total annual oil and gas production in the country. MOL is the largest private and second largest oil producing company in the country with a production share of 24 per cent. Pakistan Petroleum Limited – a pioneer of exploration and production in Pakistan – is the second highest gas producing company in the country with a 19.13 per cent. production share. Other major companies include Eni, Mari Petroleum Company Limited and United Energy Pakistan Limited.

The following table sets forth Pakistan's oil and gas production in 2020-21 by province:

Province	Oil Barrels	Barrels per day	Share in total	Gas Million cubic feet	Million cubic feet per day	Share in total
			(%)			(%)
Punjab	5,443,166	14,913	19.74	39,416	108	3.08
Sindh	7,991,212	21,894	28.99	796,873	2,183	62.29
Balochistan	238,001	652	0.86	286,046	784	22.36
Khyber Pakhtunkhwa	13,896,082	38,071	50.41	156,907	430	12.27
Total	27,568,461	75,530	100.00	1,279,243	3,505	100.00

Source: Petroleum Division

Pakistan Oil and Gas Imports. Indigenous resources of oil are not sufficient to satisfy the needs of a growing economy of Pakistan. Pakistan imports most of its oil, as local oil accounts for only 15 per cent. of its total oil consumption. Furthermore, the oil refinery sector only covers approximately 54 per cent. of the local petroleum products demand, while the rest is imported.

The total import volume of oil reached 18.2 million tons in the fiscal year 2020-2021, including 8.7 million tons of imported crude oil and 9.4 million of imported refined oil. International oil prices rebounded after 2016 and the cost of importing oil into Pakistan increased in 2017, 2018 and 2019. However, in 2020 the prices have decreased drastically principally due to the impact of the COVID-19 pandemic. The import cost of crude oil in the fiscal year 2020-2021 amounted to U.S.\$3,356 million, while the import cost of petroleum products in the fiscal year 2020-21 amounted to U.S.\$4,455 million.

The import of Pakistan refined oil principally consists of automobile gasoline and high-speed diesel. In the fiscal year 2020-21, the largest oil imports were vehicle gasoline, high-speed diesel and crude oil.

Pakistan started importing gas in the form of LNG to meet gas demands in the country after the commissioning of the first LNG re-gasification terminal in March 2015. At present, two LNG import terminals are operational in the country and there are three operational long-term LNG supply agreements. In addition, as and when required, LNG is also imported on spot basis with the current total average imports of 1,100 to 1,200 million cubic feet per day. Pakistan State Oil Company also signed a new contract with Qatar Petroleum in February 2021 for supplies of LNG for a period of 10 years with effect from January 2022. Under this new contract, LNG supplies are expected to increase from 0.5 cargoes per month (nearly 250 million cubic feet per day) in 2022 to four cargoes per month (nearly 400 million cubic feet per day) in 2024.

Iran-Pakistan Gas Pipeline Project. In 2009, Pakistan and Iran signed an initial agreement with respect to the construction of a natural gas pipeline that would bring natural gas from Iranian natural gas fields through an on-land route to Pakistan. The project would be undertaken on a segmented basis, with each country undertaking to develop their infrastructure independently, but in a coordinated manner. The construction work on the Pakistani section of the pipeline had been inaugurated in March 2013 and it was initially planned to be completed within 22 months. Pakistan, however, has not yet commenced construction of its section of the pipeline due to international sanctions against Iran.

This pipeline aims to bring natural gas from the South Paras gas field in Iran to Pakistan. When constructed, the 781 kilometre long pipeline is expected to transport 750 million cubic feet of gas per day from the Iran-Pakistan border to Nawabshah.

Strategic Underground Gas Storage. In order to ensure uninterrupted supply of natural gas, the Government has initiated a project for underground gas storage with the assistance of the Asian Development Bank. This project is being developed in line with the future energy requirements of Pakistan, existing gas import agreements and commercial considerations. Once completed, this project is expected to provide short-term standby reserves of gas to mitigate the risk of interruption in supplies and to help to address fluctuations in demand, particularly in the winter period.

Pakistan Stream Gas Pipeline Project. Russia and Pakistan entered into an agreement in October 2015 in relation to the financing and construction of what was previously known as the North-South Gas Pipeline, a LNG-import pipeline from Karachi to Lahore now called the Pakistan Stream Gas Pipeline. The two countries signed an amended Protocol to the inter-governmental agreement on Pakistan Stream Gas Pipeline on 28 May 2021 and Heads of Terms of the Shareholders Agreement in July 2021. The latter document broadly covers the corporate, governance, financing and contractual structure of the project. The parties agreed that the Russian nominated entity (Pakstream LLC) will have not less than 26 per cent. of shares in the special purpose company that will be implementing the project, while the Pakistani nominated entity (Inter State Gas Systems (Pvt) Ltd) will have up to 74 per cent. of shares in this special purpose company. Most recently, during the technical session that took place on 24 to 26

August 2021 in Islamabad, the technical design parameters for the pipeline and way forward for the implementation of the front end engineering design and the route survey were finalised.

Turkmenistan–Afghanistan–Pakistan–India Pipeline Project (TAPI). TAPI aims to bring natural gas from the Galkynysh and adjacent gas fields in Turkmenistan to Afghanistan, Pakistan and India. It is a 1,680 kilometre natural gas pipeline with design capacity of 3.2 billion cubic feet of natural gas per annum. Intergovernmental agreement with respect to the construction of TAPI by all member countries in December 2010. At the same time respective petroleum ministers of the four countries signed the gas pipeline framework agreement. In between 2012 and 2015 additional project agreements were signed, including the gas sale and purchase agreement (in 2012), the operations agreement (in 2014) and the shareholders agreement (in 2015). In September 2021, parties involved in the development of this project agreed to form a joint working group to discuss and finalise the amendments to the gas sale and purchase agreement and the gas transportation agreement. This project is currently expected to be completed in 2026.

Shale Oil and Gas. Pakistan is considered to have vast untapped shale gas potential. Lower Indus basin has, to date, sourced significant volumes of conventional oil and gas and is now believed to be home to very significant shale resources as well. According to U.S. Energy Information Administration estimates, Pakistan has technically recoverable shale gas reserves of 105 trillion cubic feet. In addition, southern Pakistan is estimated to hold shale oil reserves of over 9 billion barrels. At the end of 2015, Pakistan's Ministry of Energy (Petroleum Division) completed a study on evaluation of shale oil and gas resources in the Lower Indus Basin and the Middle Indus Basin with the help of USAID. The results turned out that Pakistan's shale gas geological resources amounted to 95 trillion cubic feet risked recoverable reserves and 14 billion barrels risked technical recoverable oil reserves.

Tight Gas. Pakistan's major exploration and production companies have presented their work at various forums estimating tight gas resources as 35-40 trillion cubic feet in the Middle – Lower Indus Basin alone based on geological prognosis. Tight gas programme could be implemented in the near future to add considerable resources to the country's declining gas production. It is a faster approach to improve the country's energy security by reliance on indigenous resources in the backdrop of depleting conventional hydrocarbon resources.

Challenges Faced by Pakistan Oil and Gas Industry. The development of the oil and gas industry faces a number of challenges at present:

- Pakistan's major oil and gas fields have embarked on the later stage of development, with their production declining gradually and insufficient resource potential;
- insufficient financial strength to develop the petroleum sector;
- technology gaps that require capital and human resource investments;
- domestic production of crude oil and refining capacity are far less than demand and, therefore, a large amount of foreign exchange is spent to import crude oil and refined oil; and
- domestic oil and gas pipeline network requires upgrading.

Coal. Coal import volumes rose in 2019-20 as coal replaced LNG as the second-largest fuel source for electricity generation in the country. This shift came as two major CPEC power projects – a 1,320 MW plant at Hub and 660 MW plants in Thar – became operational in the first half of the fiscal year 2019-20; whereas another 1,320 MW imported coal plant at Sahiwal had started operations a few weeks before the start of the fiscal year 2019-20. As a result, coal-based power generation surged 56.7 per cent. in fiscal year 2019-20.

In December 2020, Prime Minister Imran Khan announced at the virtual Climate Ambition Summit 2020 that Pakistan would have no new coal-fired power generation as part of its contribution in global efforts against climate change. He also stated that Pakistan has already scrapped two coal power projects, which were supposed to produce 2,600 MW of energy, and replaced them with hydroelectric projects.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

Pakistan's balance of payments witnessed a significant improvement under the IMF Extended Fund Facility programme completed in 2016 despite weak export performances and low foreign direct investment. The current account deficit decreased from 1.3 per cent. of GDP in 2013-14 to 1.0 per cent. of GDP in 2014-15. Financial inflows into the country were also strong, pushing the country's total liquid foreign exchange reserves to U.S.\$23.1 billion by the end of the 2015-16 fiscal year (of which net reserves with the SBP accounted for U.S.\$18.1 billion).

However, with the pick-up in real economic activity, the current account deficit also increased. In 2015-16, the current account deficit was U.S.\$5.0 billion, which further increased to U.S.\$12.3 billion in 2016-17, primarily due to a higher trade deficit and a small reduction in workers' remittances. Strong growth in imports of capital goods (power and construction machinery), petroleum products and CPEC-related imports also contributed in pushing the current account deficit higher, to 4.0 per cent. of GDP, in 2016-17 as compared to 1.8 per cent. of GDP in 2015-16. This higher current account deficit put pressure on total liquid foreign exchange reserves, which decreased to U.S.\$21.4 billion (of which net reserves with the SBP accounted for U.S.\$16.1 billion) as at 30 June 2017.

In order to reduce the trade deficit, the previous Government announced an incentive package to facilitate exports in January 2017. These new incentives, together with better energy supplies, a significant improvement in security conditions, improved investor sentiment and growing external demand contributed to an improvement in exports. Pakistan's exports of goods increased to U.S.\$24.8 billion in 2017-18, up from U.S.\$22.0 billion in 2016-17. In addition, net foreign direct investment grew to U.S.\$2.8 billion in 2017-18, up from U.S.\$2.4 billion in 2016-17, while workers' remittances also returned to growth. However, the overall situation with the balance of payments deteriorated in 2017-18 and the current account deficit reached 6.1 per cent. of GDP, reflecting the imports under CPEC, fiscal stimulus and an accommodative monetary policy. Imports of goods increased by 16.0 per cent. as compared to 2016-17 and reached the highest ever level of U.S.\$55.7 billion. As a result, the trade deficit widened to U.S.\$30.9 billion, which was the highest in the last decade. Historically, workers' remittances have been providing support to sustain current account deficit as a buffer against trade deficit, but in 2017-18 workers' remittances grew by only 2.9 per cent. as compared to 2016-17, while the trade deficit growth reached 18.9 per cent. in the same year.

The Government and the SBP have taken various corrective measures to address the growing current account deficit, including the implementation of a market based exchange rate system, monetary and fiscal policies tightening and imposition of regulatory duties. To support its home-grown stabilisation measures, Pakistan has also entered into the IMF EFF programme on 3 July 2019. Under this programme, IMF is expected to extend approximately U.S.\$6.0 billion over the period of 39 months to support the Pakistan's authorities' economic reform programme. See "*Overview of Pakistan's Economy – Recent Finance Programmes with the IMF*".

Pakistan's current account deficit decreased to 4.8 per cent. of GDP in 2018-19 and further decreased to 1.7 per cent. in 2019-20. Lower imports of goods and higher remittances contributed to the narrower deficit. Imports of goods decreased by 6.8 per cent. in 2018-19 as compared to 2017-18 to U.S.\$51.9 billion, largely due to the impact of policy measures ranging from exchange rate depreciation and policy rate hikes to higher import duties on non-essential items, while workers' remittances increased by 9.2 per cent. to U.S.\$21.7 billion. In 2019-20, imports declined by a further 15.9 per cent. to U.S.\$43.6 billion as a result of the continuation of stabilisation measures and COVID-19-related reduction in demand, while workers' remittances increased by 6.4 per cent. to U.S.\$23.1 billion. The largely positive dynamics in the current account has not been supported by higher exports of goods, the value of which decreased by 2.1 per cent. in 2018-19 as compared to 2017-18. Exports of goods declined by a further 7.1 per cent. in 2019-20 as compared to 2018-19.

The current account balance showed marked improvement and narrowed to a 10-year lowest deficit of U.S.\$1,916 million (0.6 per cent. of GDP) in 2020-21 as compared to a deficit of U.S.\$ 4,449 million (1.7 per cent. of GDP) in 2019-20. The main driver of improvement in the current account balance was the robust growth in remittances. Even during the global economic crisis due to the COVID-19 pandemic, the inflows accelerated to all-time high of \$29.4 billion in 2020-21, posting a year-on-year growth of 27.0 per cent. Timely measures by the Government and the SBP to popularise the use of formal channels for the transfer of funds contributed to this development and its continuation is adding sustainability to remittance inflows.

Concurrently, the primary income account also provided a cushion to improve the current account balance. The lower interest payments and deferment of debt repayment (both interest and principal) under G-20 Debt Service Suspension Initiative (**DSSI**) have contributed to improve the balance of primary income as the deficit declined from U.S.\$5.5 billion in 2019-20 to U.S.\$4.6 billion in 2020-21.

The services trade deficit shrank by 41.0 per cent. mainly because of strong demand of telecommunications services amidst lockdown and air travel restrictions. By contrast, the trade deficit in goods widened owing to escalating imports of capital goods (principally under the SBP's Temporary Economic Refinance Facility scheme) and industrial raw materials, as the economy recovered from the effects of coronavirus lockdown in the March to May 2020 period and a rise in international commodity prices. Meanwhile, import of agricultural commodities like sugar, wheat and cotton, due to shortage in production is another major contributor in widening of the trade deficit from U.S.\$21.1 billion in 2019-20 to U.S.\$28.2 billion in 2020-21, which increased the deficit by 33.5 per cent.

Pakistan's total liquid foreign exchange reserves were adversely affected by the significant current account deficit in past years and decreased to U.S.\$14.5 billion (of which net reserves with the SBP accounted for U.S.\$7.3 billion) as at 30 June 2019. However, with the significant reduction in the current account deficit, Pakistan's total liquid foreign exchange reserves increased to U.S.\$18.9 billion (of which net reserves with the SBP accounted for U.S.\$12.1 billion) as at 30 June 2020 and U.S.\$24.4 billion (of which net reserves with the SBP accounted for U.S.\$17.3 billion) as at 30 June 2021 before decreasing to U.S.\$24.0 billion (of which net reserves with the SBP accounted for U.S.\$17.7 billion) as at 31 December 2021.

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

	2016-17	2017-18	2018-19	2019-20	2020-21	July-Nov 2020-21	July-Nov 2021-22	
	<i>(U.S.\$ million)</i>							
Balance on trade in goods	(25,998)	(30,903)	(27,612)	(21,109)	(28,188)	(8,624)	(17,571)	
Exports of goods	22,003	24,768	24,257	22,536	25,630	9,562	12,330	
Imports of goods	48,001	55,671	51,869	43,645	53,818	18,186	29,901	
Balance of trade in services	(4,661)	(6,426)	(4,970)	(3,316)	(1,957)	(799)	(1,323)	
Exports of services	5,915	5,851	5,966	5,437	5,882	2,213	2,721	
Imports of services	10,576	12,277	10,936	8,753	7,839	3,012	4,044	
Balance on primary income	(5,014)	(5,437)	(5,610)	(5,459)	(4,613)	(2,158)	(1,901)	
Balance secondary income	23,403	23,571	24,758	25,435	32,842	13,457	13,706	
of which workers' remittances	19,351	19,914	21,740	23,131	29,370	11,766	12,905	
Current account balance	(12,270)	(19,195)	(13,434)	(4,449)	(1,916)	1,876	(7,089)	

	2016-17	2017-18	2018-19	2019-20	2020-21	July-Nov 2020-21	July-Nov 2021-22
Capital account balance	375	376	229	285	235	102	82
Financial account	(9,855)	(13,611)	(11,759)	(9,313)	(8,225)	978	(5,838)
Direct investment (net)	(2,320)	(2,772)	(1,436)	(2,652)	(1,786)	(659)	(758)
Direct investment in Pakistan	2,406	2,782	1,362	2,598	1,862	711	798
Portfolio investment (net)	250	(2,257)	1,274	409	(2,770)	453	301
Portfolio investment in Pakistan	(251)	2,209	(1,418)	(524)	2,763	(445)	(343)
Net acquisition of financial assets	1,180	273	(67)	(127)	471	1,561	(4)
Net incurrence of liabilities	8,965	8,855	11,530	6,935	4,140	379	5,376
Net errors and omissions	94	(933)	(58)	150	(991)	(399)	(15)
Reserves and related items	(1,946)	(6,141)	(1,504)	5,299	5,553	601	(1,184)

(1) Provisional

Source: State Bank of Pakistan

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

	2016-17	2017-18	2018-19 ⁽¹⁾	2019-20 ⁽²⁾	2020-2021 ⁽³⁾	July-Nov 2020-21	July-Nov 2021-22
	(% of GDP)						
Exports of goods	7.2	7.9	8.7	8.7	8.6	7.9	9.2
Imports of goods	15.8	17.7	18.6	16.6	18.1	15.1	22.3
Balance on trade in goods	(8.5)	(9.8)	(9.9)	(8.0)	(9.5)	(7.1)	(13.1)
Worker's remittances	6.4	6.3	7.8	8.8	9.9	9.7	9.6
Current account balance	(4.0)	(6.1)	(4.8)	(1.7)	(0.6)	1.6	(5.3)

(1) Final

(2) Revised

(3) Provisional

Sources: Pakistan Economic Survey 2020-21, State Bank of Pakistan

In response to the deterioration in Pakistan's balance of payments position in 2017-18, the SBP and the Government took a number of measures, including macro adjustment policies, such as monetary tightening, exchange rate adjustments and cuts in development spending. The key measures were as follows:

- Accommodative monetary policy contributed to the rapid increase in Pakistan's current account deficit in the past. The SBP reversed its policy stance from accommodative to contractionary monetary policy since January 2018 to curb excessive aggregate demand. The policy rate in the pre-COVID-19 period was gradually increased by cumulative 750 bps to 13.25 per cent.
- As the defence of an overvalued exchange was one of the key reasons driving growth in the current account deficit, the SBP addressed this issue by allowing the exchange rate to be market determined since 16 May 2019. The SBP now only intervenes in the foreign exchange market

to prevent disorderly market conditions, while at the same time not suppressing an underlying trend and in a manner consistent with rebuilding foreign exchange reserves.

- Development expenditures were decreased from Rupees 1,152 billion in the 2018-19 budget to Rupees 830 billion in the revised 2018-19 budget. From this low base, development expenditures were increased to Rupees 923 billion in the 2019-20 budget, but then they were decreased again to Rupees 860 billion in the 2020-21 budget.
- The Government has taken steps to restrict unnecessary imports, which started eroding the competitive edge of domestic industry including the exports-oriented businesses. A number of measures have been taken in this regard, which helped in reducing the overall size of imports and simultaneously formed a stimulus for sustainable economic growth by improving competitiveness and efficiency of the industry, especially export-oriented and import-substituting businesses and reducing anomalies and cost of doing business. In addition, in the 2019-20 budget, the Government has provided relief to export-oriented sectors which can now import more than 1,600 raw materials items at reduced/zero tariff rates. Regulatory duty and customs duty on imported cotton yarn were also removed in December 2020 and May 2021, respectively, to reduce the imported cost of the raw materials for the export-oriented industry amidst domestic shortage of these raw materials. See also "*Foreign Trade – Exports and Imports – Imports*" for the Government's measures to support import substitution.
- The SBP has reduced the lending rates under Long-Term Finance Facility from 6.0 per cent. to 5.0 per cent. for non-textile sectors, while for textile sectors it was already 5.0 per cent. The SBP has kept the lending rates unchanged for its export finance scheme at 3.0 per cent.
- The Government has implemented a number of initiatives to increase workers' remittances, for instance through allowing banks to offer new remittance services, providing an incentive scheme for financial institutions and launching a media/awareness campaign to promote remittances through formal channels.

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. Export-led growth has been actively encouraged by all recent governments and trade and investment regime has been liberalised 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.

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 that was concluded in December 2013 and entered into force in February 2017 following its ratification by two-thirds of the WTO membership.

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. In addition, Pakistan has also entered into preferential and free trade agreements with certain countries (for example, Indonesia and Phase II of the free trade agreement with China). These measures are expected to boost Pakistan's regional trade in such countries in the medium and long term.

Exports and Imports

Exports. Merchandise exports totalled an all-time high of U.S.\$25.6 billion in 2020-21, which is a 13.7 per cent. increase from U.S.\$22.5 billion in 2019-20. Strong growth in textile group along with improvement in other manufactures (surgical, pharmaceuticals and engineering goods) contributed to this performance. This recovery followed a 7.1 per cent. decrease in exports in 2019-20 as compared to 2018-19 caused by a slowdown in global economic growth due to COVID-19 as well as spill overs from U.S.-China trade tensions.

The current Government is focusing on making exports a driver of sustainable economic growth. It is seeking to improve competitiveness and efficiency of the industry, especially export-oriented and import-substituting businesses.

The following table sets out details of the composition of Pakistan's exports for the periods stated. Total exports in this table are based on data compiled by State Bank of Pakistan that differs from exports data compiled by the Pakistan Bureau of Statistics using customs records.

	2016-17	2017-18	2018-19	2019-20	2020-21	July- Nov 2020-21	July- Nov 2021- 22 ⁽¹⁾	% Change 2020-21/ 2019-20	Absolut e Change 2020-21/ (U.S.\$ million)	% Share 2020-21	% Change July- Nov 2021-22 over July- Nov 2020-21
	<i>(U.S.\$ million)</i>										
Food group	3,618	4,818	4,648	4,539	4,502	1,530	1,851	(0.8)	(37.0)	17.6	21.0
Textile group	12,457	13,377	13,581	12,799	14,410	5,369	7,201	12.6	1,611.0	56.2	34.1
Petroleum group	411	575	676	369	235	86	101	(36.3)	(134.0)	0.9	17.5
Other manufactur es	3,659	4,134	3,822	3,522	3,834	1,508	1,692	8.9	312.0	15.0	12.2
All other items	1,219	1,392	1,304	1,312	2,037	704	1,094	55.2	725.0	7.9	55.4
Total	22,003	24,768	24,257	22,536	25,630	9,562	12,330	13.7	3,094	100.0	28.9

(1) Provisional

Source: State Bank of Pakistan

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

Country	2016-17	2017-18	2018-19	2019-20	2020- 21	July-November 2020-21	July-November 2021-22 ⁽¹⁾
	<i>(U.S.\$ billion)</i>						
U.S.	3.7	3.9	4.0	3.9	5.0	1.9	2.7
United Kingdom	1.6	1.8	1.8	1.6	2.0	0.8	0.9
China	1.6	1.8	1.9	1.7	2.0	0.6	1.0
Germany	1.2	1.4	1.3	1.3	1.5	0.6	0.7
United Arab Emirates	1.1	1.4	1.4	1.6	1.5	0.6	0.7
Netherlands	0.6	0.8	0.9	1.0	1.1	0.4	0.6
Afghanistan	1.1	1.5	1.2	0.9	1.0	0.4	0.2
Spain	0.8	0.9	0.9	0.9	0.8	0.3	0.4
Italy	0.7	0.8	0.8	0.8	0.8	0.3	0.4
Bangladesh	0.6	0.7	0.7	0.7	0.6	0.2	0.3

(1) Provisional

Source: State Bank of Pakistan

Imports. Merchandise imports in 2020-21 increased to U.S.\$53.8 billion as compared to U.S.\$43.6 billion in 2019-20, with the largest increases in the food group (by U.S.\$2.5 billion, or 53.7 per cent), machinery group (by U.S.\$2.1 billion, or 34.4 per cent), textile group (by U.S.\$1.5 billion, or 44.1 per cent), agricultural and other chemical group (by U.S.\$1.5 billion, or 21.2 per cent) and metal group (by U.S.\$1.4 billion, or 42.0 per cent).

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

	2016-17	2017-18	2018-19	2019-20	2020-21	July-Nov 2020-21	July-Nov 2021-22 ⁽²⁾	% Change 2020-21/ 2019-20	Absolute Change 2019-20/ 2018-19 (U.S.\$ million)	% Share 2019-20	% Change July-Nov 2021-22 over July-Nov 2020-21
	(U.S.\$ million)										
Food group	5,417	5,502	4,751	4,713	7,244	2,516	3,392	53.7	2,531	13.5	34.9
Machinery group	7,410	8,785	6,768	6,193	8,322	3,001	3,812	34.4	2,129	15.5	27.0
Transport group	2,643	3,207	2,315	1,512	2,745	730	1,550	81.5	1,233	5.1	112.3
Petroleum group	10,607	13,263	13,929	9,280	9,747	3,438	7,094	5.0	467	18.1	106.4
Textile group	3,589	4,091	3,854	3,301	4,756	1,545	2,299	44.1	1,455	8.8	48.8
Agricultural and other chemical	7,123	8,315	8,394	7,032	8,523	3,070	4,350	21.2	1,491	15.8	41.7
Metal group	3,674	4,762	3,907	3,228	4,583	1,640	2,542	42.0	1,355	8.5	55.0
Miscellaneous group	1,196	1,256	1,030	789	1,163	463	500	47.4	374	2.2	7.9
All other items	5,620	5,269	5,344	4,962	5,065	1,473	2,778	2.1	103	9.4	88.5
Total	48,001	55,671	51,869	43,645	53,818	18,186	29,901	23.3	10,173	100	64.4

(1) Total imports in this table are based on import payments through banks, which may be different from the imports compiled by the Pakistan Bureau of Statistics on the basis of custom's recording.

(2) Provisional

Source: State Bank of Pakistan

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

Country	2016-17	2017-18	2018-19	2019-20	2020-21	July-November 2020-21	July-November 2021-22 ⁽¹⁾
	(U.S.\$ billion)						
China	10.1	11.5	10.2	9.6	13.3	4.5	7.0
United Arab Emirates	7.2	8.9	8.9	6.4	7.0	2.7	4.0
Singapore	4.1	4.5	3.3	2.4	3.1	1.1	1.6
U.S.	2.1	2.1	2.1	2.3	2.4	0.8	1.1
Saudi Arabia	2.4	3.1	3.0	1.3	2.4	0.8	1.7
Japan	1.7	1.9	1.5	1.0	1.5	0.4	0.9
Kuwait	1.1	1.1	1.2	1.0	1.4	0.4	0.9
Indonesia	1.0	1.1	1.1	1.0	1.3	0.4	1.0
India	1.7	1.8	1.6	0.4	0.2	0.1	0.1

(1) Provisional

Source: State Bank of Pakistan

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 exports to Iran food, medical instruments and other items that are exempt from trade sanctions. The volume of Pakistan's trade with Iran came down from U.S.\$1,169 million in 2009-10 to U.S.\$103 thousand in 2019-20 (with exports of U.S.\$55 thousand and imports of U.S.\$48 thousand) and U.S.\$155 thousand in 2020-21 (with exports of U.S.\$155 thousand and no imports).

Pakistan has historically imported crude oil from Iran. However, as a result of the increasing sanctions, Pakistan reduced crude oil imports from Iran and then stopped them completely after 2013-14. 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, other countries in the GCC region (Oman, Qatar, Bahrain and Kuwait), the U.S. and the UK are the principal sources of workers' remittances.

The establishment of the PRI has contributed positively to the flow of workers' remittances to Pakistan, which grew by 162.2 per cent. from 2010-11 to 2020-21. In 2020-21, workers' remittances increased by 27.0 per cent. to \$29.4 billion.

The Government has implemented a number of initiatives to increase workers' remittances, for instance allowing banks to offer new remittance services, providing incentive schemes for financial institutions and launching a media/awareness campaign to promote remittances through formal channels. The SBP and PRI are encouraging, and working with, financial institutions with respect to end-to-end digitisation of remittance services to help customers to send as well as to receive funds, particularly at the time of lockdowns related to the COVID-19 pandemic.

To further improve international workers' remittances, the Pakistan Post has partnered with the National Bank to join the PRI for the delivery of international remittances through post offices. Pakistan Post has started making payments through its postal counters.

The SBP and PRI have conducted various awareness sessions related to home remittances in collaboration with Ministry of Foreign Affairs/Pakistan Mission Abroad for the promotion of home remittances through legal channels.

Information on total workers' remittances and in workers' remittances from certain countries and regions is summarised in the table below:

	2016-17	2017-18	2018-19	2019-20	2020-21	July- November 2020-21	July- November 2021-22 ⁽¹⁾	
	<i>(U.S.\$ billion)</i>							
Total	19.4	19.9	21.7	23.1	29.4	12.9	11.8	
U.S.	2.5	2.8	3.3	1.7	2.8	1.0	1.3	
UK	2.3	2.9	3.4	2.6	4.1	1.6	1.8	
Saudi Arabia	5.5	4.9	5.0	6.6	7.7	3.3	3.3	
United Arab Emirates	4.3	4.4	4.6	5.6	6.1	2.4	2.5	
Other GCC Countries	2.3	2.2	2.1	2.9	3.3	1.3	1.5	
EU Countries	0.5	0.7	0.6	1.8	2.7	1.0	1.4	
All Other Countries	2	2.1	2.7	1.9	2.7	1.1	1.2	

(1) Provisional

Source: State Bank of Pakistan

Foreign Direct Investment

Pakistan has a liberal foreign investment regime, which generally allows for 100 per cent. foreign ownership of companies and for full repatriation of capital, capital gains, dividends and profit in most sectors of the economy.

To promote the ease of doing business in the country, SBP has further liberalised foreign exchange controls related trade and investment policies by, for example, reducing its role in the remittance authorisation of disinvestment proceeds by delegating this function to the banks. In order to facilitate business where foreign exchange approvals are required, SBP has launched an online portal to provide such approvals. To attract international investors that prefer to invest indirectly, start-up/ technology companies are permitted to use a non-resident holding company. In addition, resident Pakistanis have also been allowed to acquire sweat equity from abroad.

Foreign private investment amounted to U.S.\$2.1 billion in 2020-21 as compared to U.S.\$2.3 billion in 2019-20. Foreign direct private investment decreased in 2020-21 to U.S.\$1.9 billion as compared to U.S.\$2.6 billion in 2019-20. In July-October 2021-22, foreign direct investment amounted to U.S.\$662.1 million as compared to U.S.\$750.6 million in July-October 2020-21.

In 2020-21, U.S.\$757.9 million, or 40.7 per cent, of net foreign direct investment inflows were from China, with the balance coming principally from the United States (U.S.\$168.4 million), Hong Kong (U.S.\$157.2 million), the UK (U.S.\$143.5 million) and the Netherlands (U.S.\$107.1 million). Major recipient sectors of foreign direct investment in 2020-21 included power, financial businesses, oil and gas exploration and trade. Insofar as net foreign portfolio investment is concerned, it experienced an inflow of U.S.\$2.76 billion in 2020-21, due to the issuance of Eurobonds (U.S.\$2.5 billion) as compared to an outflow of U.S.\$523 million in 2019-20.

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

	2016-17	2017-18	2018-19	2019-20	2020-21	July-Nov 2020-21	July-Nov 2021-22 ⁽¹⁾
	<i>(U.S.\$ million)</i>						
Foreign private investment	1,893.8	2,539.6	947.2	2,315.8	2,071.8	524.8	534.4
Direct investment	2,406.6	2,780.3	1,362.4	2,597.5	1,862.8	710.3	797.7
Inflow	3,110.8	3,494.5	2,785.2	3,322.1	3,025.9	1,308.4	1,185.4
Outflow	704.2	714.2	1,422.8	724.6	1,163.1	598.1	387.7
Portfolio Investment	(512.8)	(240.7)	(415.2)	(281.7)	209.0	(185.5)	(263.2)
Equity securities	(512.8)	(240.7)	(415.2)	(281.7)	(291.0)	(185.5)	(263.2)
Debt securities	-	-	-	-	500.0	-	-
Convertible bonds of Pace Pakistan	-	-	-	-	-	-	-
International bonds of PMCL	-	-	-	-	-	-	-
Foreign public investment	262.1	2,450.5	(1,002.0)	(241.3)	2,555.3	(261.5)	(79.0)
Portfolio investment	262.1	2,450.5	(1,002.0)	(241.3)	2,555.3	(261.5)	(79.0)
Equity securities	-	-	-	-	-	-	-
Debt securities ⁽²⁾	262.1	2,450.5	(1,002.0)	(241.3)	2,555.3	(261.5)	(79.0)
Total	2,155.9	4,990.0	(54.8)	2,074.5	4,627.1	263.4	455.5

(1) Provisional

(2) 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

Source: State Bank of Pakistan

Foreign Reserves

Principally due to the widening of the current account deficit and insufficient financial inflows, Pakistan's liquid foreign exchange reserves decreased to U.S.\$14.5 billion as at 30 June 2019 from U.S.\$16.4 billion as at 30 June 2018, U.S.\$21.4 billion as at 30 June 2017 and U.S.\$23.1 billion as at 30 June 2016. However, as a result of recent stabilisation measures and support under the IMF EFF programme, Pakistan's liquid foreign exchange reserves increased to U.S.\$18.9 billion as at 30 June 2020 and U.S.\$24.4 billion as at 30 June 2021 before decreasing to U.S.\$24.0 billion as at 31 December 2021.

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:

	2017	2018	2019	2020	2021 ⁽¹⁾
	<i>(U.S.\$ million)</i>				
Liquid Foreign Exchange Reserves	21,402.9	16,383.6	14,481.6	18,886.4	24,398.2
Gold reserves	2,578	2,598	2,928	3,674	3,665

(1) Provisional

Source: State Bank of Pakistan

Inflation, Money and Monetary Policy

Inflation. Consumer Price Index (CPI) inflation witnessed high volatility and remained in double digits during the period from 2008-09 to 2011-12, but decreased in the subsequent years. 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 decrease in international commodity prices in early 2009, devastating floods in 2010 severely disrupted the supply chain resulting in significant inflationary pressures. In 2014-15, 2015-16, 2016-7 and 2017-18, average CPI inflation eased significantly to 4.5 per cent, 2.9 per cent, 4.2 per cent. and 3.9 per cent. (in each case using base year 2007-08), respectively, from 8.6 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. Using base year 2015-16, average CPI was 4.7 per cent. in 2017-18.

However, principally due to the recovery in global commodity prices, significant depreciation of the Rupee and upward adjustment in power tariffs, average CPI inflation increased from 6.8 per cent. in 2018-19 to 10.7 per cent. in 2019-20 before decreasing to 8.9 per cent. in 2020-21 (in each case using base year 2015-16). Inflation increased to 9.8 per cent. average in the July 2021 to December 2021 period.

In the medium term, the SBP aims to keep inflation low and stable in the range of five to seven per cent. The following table sets out headline and core inflation for the periods stated:

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 ⁽¹⁾
Indices						
General	203.82	212.29	220.62	236.81	263.15	141.31
Food	224.78	233.37	237.59	248.44	283.54	144.74
Non-food	191.25	199.65	210.45	229.84	250.93	138.15
Core ⁽²⁾	190.71	200.61	212.34	229.53	247.55	137.13
Annual Inflation						
General	2.9	4.2	3.9	7.3	11.1	8.9
Food	2.1	3.8	1.8	4.6	14.1	12.4
Non-food	3.4	4.4	5.4	9.2	9.2	5.7
Core ⁽²⁾	4.2	5.2	5.9	7.9	7.8	6.0

- (1) The inflation numbers and price indices for the fiscal year 2020-21 for the categories 'Food', 'Non-food' and 'Core' pertain to urban basket (base year: 2015-16), while the figures for 'General' category pertain to national basket.
- (2) Core inflation is defined as overall inflation adjusted for food and energy. The base year is 2007-08 for 2014-15 to 2019-20 whereas inflation numbers for 2020-21 are calculated as per the new base (National CPI - 2015-16).

Source: Pakistan Bureau of Statistics, Pakistan Economic Survey 2020-21, State Bank of Pakistan

Money and Monetary Policy. The broad money (M2) increased by 17.5 per cent. in 2019-20 and 16.1 per cent. in 2020-21. Nearly two-thirds of the expansion in M2 in each year came from net domestic assets of the banking system, which expanded by Rupees 2,119 billion in 2019-20 and Rupees 2,135 billion in 2020-21. In both of these fiscal years, owing to external sector improvements, net foreign assets also expanded significantly to Rupees 991 billion during 2019-20 and Rupees 1,241 billion in 2020-21. The Government's net budgetary borrowing from the banking system was Rupees 2,152, billion in 2019-20 and Rupees 1,699 billion in 2020-21. The flow of credit to private sector was Rupees 196 billion in 2019-20 and it increased further to Rupees 766 billion in 2020-21.

After raising the key policy rate by 100 basis points in early 2019-20 and maintaining status quo for several months until March 2020, the Monetary Policy Committee (the MPC) cut the key policy rate by a cumulative 625 basis points from 17 March 2020 to 25 June 2020 to counter the contractionary impact of COVID-19 on the economy. More recently, at its meeting on 20 September 2021, the MPC decided to raise the policy rate by 25 basis points to 7.25 per cent due to robust domestic demand and higher international commodity prices, which has led to growing vulnerabilities on the balance of payment position. On 19 November 2021, the MPC decided to raise the policy rate by 150 basis points to 8.75 per cent. This reflected the MPC's view that since the last meeting in September 2021, risks related to inflation and the balance of payments have increased while the outlook for growth has continued to improve. On 14 December 2021, the MPC raised the policy rate by 100 basis points to 9.75 per cent. It should also be noted that the SBP has also started to scale back the liquidity support provided through COVID-related measures due to faster than expected economic recovery.

The following table provides an overview of components of monetary assets as at 30 June for the fiscal years stated and as at 17 December 2021:

	2016-17	2017-18	2018-19	2019-20	2020-21 ⁽¹⁾	17 December 2021 ⁽²⁾
	<i>Stocks (Rupees billion)</i>					
1. Currency issued	4,176.9	4,644.9	5,294.8	6,468.7	7,288.8	7,527.2
2. Currency held by SBP	1.0	1.2	1.2	1.2	0.6	0.5
3. Currency in tills of Scheduled Banks	264.6	255.9	343.5	325.5	378.3	326.8
4. Currency circulation (1-2-3)	3,911.3	4,387.8	4,950.0	6,142.0	6,909.9	7,199.9
5. Other deposits with SBP	22.7	27.0	33.6	41.2	68.0	76.8
6. Scheduled banks' total deposits ⁽³⁾	10,646.9	11,582.4	12,814.8	14,724.8	17,319.8	17,266.4
7. Resident foreign currency deposits (RFCD)	655.3	829.4	1,109.8	1,074.5	1,046.2	1,149.8
8. Monetary assets (4+5+6)	14,580.9	15,997.2	17,798.5	20,908.0	24,297.7	24,543.0
9. Growth rate in monetary assets(%)	13.7	9.7	11.3	17.5	16.2	1.0
10. Currency/money ratio	26.8	27.4	27.8	29.4	28.4	29.3
11. Demand deposits/money ratio	64.3	63	62.8	60.6	63.2	62.1
12. Time deposits/money ratio	4.2	4.2	3	4.7	3.8	3.6
13. Other deposits/money ratio	0.2	0.2	0.2	0.2	0.3	0.3
14. RFCD/money ratio	4.5	5.2	6.2	5.1	4.3	4.7
15. Income velocity ⁽⁴⁾	2.3	2.3	2.3	2.2	2.0	-

(1) Revised

(2) Provisional

(3) Excluding inter-bank deposits and deposits of federal and provincial governments, foreign constituents and international organisations

(4) Income velocity of money is calculated as GDP at current market prices divided by quarterly average of monetary assets (M2).

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 50 paisa 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.

As an overvalued exchange was one of the key reasons driving growth in the current account deficit, the SBP addressed this issue by allowing the exchange rate to be market determined since 16 May 2019. The SBP now only intervenes in the foreign exchange market to prevent disorderly market conditions, while at the same time not suppressing an underlying trend and in a manner consistent with rebuilding foreign exchange reserves. The interbank foreign exchange market has adjusted well to the market based flexible exchange rate regime and the transition remained relatively smooth.

The Rupee depreciated against the U.S. dollar by 4.8 per cent. in 2019-20. In the fiscal year 2020-21, the Rupee appreciated against U.S. dollar by 6.7 per cent.

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

Country	Currency	2015-16	2016-17	2017-18	2018-19	2019-20	2020 –21
Australia	Dollar	76.0249	79.0809	85.2462	97.3543	106.2858	119.5942
Bangladesh	Taka	1.3347	1.3171	1.3289	1.6192	1.8666	1.8908
Canada	Dollar	78.7672	78.9813	86.6132	102.883	118.0313	124.9061
China	Yuan	16.1967	15.3812	16.9236	19.9742	22.5127	24.2090
Hong Kong	Dollar	13.4517	13.4970	14.0535	17.3807	20.3048	20.6721
India	Rupee	1.5731	1.5775	1.6892	1.9315	2.1861	2.1752
Japan	Yen	0.8981	0.9610	0.9976	1.2269	1.4638	1.5070
Kuwait	Dinar	345.3067	344.9283	364.8187	448.7933	517.6728	527.3319
Malaysia	Ringgit	25.2657	24.4449	27.0628	33.0171	37.6417	38.8623
Norway	Krone	12.4177	12.4579	13.7632	16.0658	16.9660	18.2940
Singapore	Dollar	75.1182	75.2259	81.9931	99.8234	114.4476	119.0325
Sri Lanka	LKR	0.7343	0.7018	0.7102	0.7853	0.8672	0.8426
Sweden	Krona	12.4197	11.8763	13.2399	14.8853	16.4292	18.6950
Switzerland	Franc	106.5144	105.6945	113.3216	136.9096	162.0581	176.1689
Saudi Arabia	Riyal	27.8271	27.9436	29.3237	36.3311	42.1739	42.7464
Thailand	Baht	2.9393	3.0023	3.3937	4.2299	5.1012	5.1909

Country	Currency	2015-16	2016-17	2017-18	2018-19	2019-20	2020 –21
UAE	Dirham	28.4165	28.5340	29.9404	37.0981	43.0852	43.6489
United Kingdom	Pound	154.7033	132.8218	148.2579	176.323	199.6347	215.6348
U.S.	Dollar	104.3738	104.8046	109.9713	136.2657	158.2561	160.3284
EMU	Euro	115.8746	114.1654	131.3192	155.3441	175.0581	191.1579

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. A Budget Strategy Paper is formulated by the Budget Wing of Ministry of Finance and Revenue for each fiscal year by 15 April. The Budget Strategy Paper sets out quantified macroeconomic and fiscal projections for the medium term, indicates strategic priorities of the Government revenue and spending policies and specifies indicative levels of spending for various ministries and divisions. The Budget Strategy Paper is presented to the Federal Cabinet for approval and, following approval, the Budget Wing of Ministry of Finance issues indicative budget ceilings to ministries and divisions. The provinces also formulate their respective budget strategy papers including their revenue and spending levels in the medium term. In 2021, the Macro Fiscal Unit was established in the Ministry of Finance, in which a national macro medium-term fiscal framework will be developed and, after finalisation, shared with the respective governments for formulation of their budget strategy papers to be presented to the parliaments.

Budgetary process

The Constitution governs Pakistan's budgetary process. The executive branch prepares the national budget and presents it to the National Assembly. The National Assembly 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 expenditure. No expenditure is deemed authorised unless it is presented before the National Assembly.

2021-22 Budget. The 2021-22 budget is a growth budget and its preparation is based on a strategy to boost the economic growth in accordance with the strategic priorities, revenue and spending policies of the Government. The following are the main objectives of the 2021-22 budget:

- striking a balance between the COVID-19 related fiscal deficit and boosting the growth of the country's economy;
- keeping primary balance at a sustainable level;
- protection of social spending under the *Ehsaas* programme to support the vulnerable segments of the society;
- resource mobilisation without unnecessary changes in tax structure;
- successful continuation of the IMF programme;
- carrying forward of the stimulus package approved in March 2020;
- keeping development budget at an adequate level to stimulate economic growth, coupled with policy support;
- funding of crucial housing initiatives including Naya Pakistan Housing project to boost the construction sector;

- providing funding for special areas such as FATA, Azad Jammu & Kashmir and Gilgit Baltistan to ensure their development;
- continuing to fund several special initiatives led by the Prime Minister, including Kamyab Jawan (youth entrepreneurship scheme), Sehat Card (providing access to healthcare for the underprivileged) and Billion Tree Tsunami reforestation project;
- austerity and rationalisation of non-productive expenditures are to be continued;
- subsidy regime is to be rationalised to provide targeted subsidy to the deserving segments of the society; and
- NFC award is to be revisited. Moreover, the provinces will be asked to fulfil their funding commitment made at the time of merger of the former FATA.

The main features of the 2021-22 budget are set out in the table below:

RESOURCES		EXPENDITURE	
<i>(Rupees Billion)</i>			
Tax revenue	5,829	A. Current expenditure	7,523
Non-tax revenue	2,080	Interest payments	3,060
a. Gross revenue receipts	7,909	Pensions	480
b. Less provincial share	3,412	Defence services	1,370
I. Net revenue receipts (a-b)	4,497	Grants and transfers to provinces and others	1,168
II. Non-bank borrowing	1,241	Subsidies	682
III. Net external receipts	1,246	Running of civil government	479
IV. Estimated provincial surplus	570	Provision for contingencies and fund	25
V. Bank borrowing (treasury bills, PIBs, Sukuk)	681	Provision for disaster / emergency / COVID	100
VI. Privatisation proceeds	252	Provision for pay and pension	160
		B. Development	964
		Federal PSDP	900
		Net lending	64
TOTAL RESOURCES (I to VI)	8,487	TOTAL EXPENDITURE (A+B)	8,487

Source: Budget in Brief 2020-21

The comparative position of 2020-21 (budget and revised) and 2021-22 (budget) is set out below:

	Budget 2020-21	Revised 2020-21	Change between original and revised budgets	Budget 2021-22
	<i>(Rupees billion, except as stated otherwise)</i>			<i>(Rupees billion, except as stated otherwise)</i>
			(%)	
Revenue receipt (FBR)	4,963	4,691	(5.5)	5,829
Non tax revenue	1,610	1,704	5.9	2,080
Gross revenue (FBR+NTR)	6,573	6,395	(2.7)	7,909
Less: transfer to provinces	(2,874)	(2,704)	(5.9)	(3,412)
Net revenue for federal government	3,700	3,691	(0.2)	4,497
Expenditure	7,137	7,341	2.9	8,487

	Budget 2020-21	Revised 2020-21	Change between original and revised budgets	Budget 2021-22
	<i>(Rupees billion, except as stated otherwise)</i>			<i>(Rupees billion, except as stated otherwise)</i>
			(%)	
Federal budget deficit	(3,437)	(3,650)	6.2	(3,990)
Provincial surplus	242	242	(0.2)	570
Overall budget deficit	(3,195)	(3,408)	6.7	(3,420)
Overall fiscal deficit as % of GDP <i>(in percentages)</i>	(7.0)	(7.1)	1.9	(6.3)
Primary deficit	(249)	(557)	125	(360)
Note:				
GDP	45,567	47,709	4.7	53,867

Source: Budget in Brief 2020-21

Fiscal Position of Pakistan

The following table summarises the consolidated federal and provincial governments' revenues and expenditures for 2017-18, 2018-19, 2019-20 and 2020-21, as well as the budget estimates for 2021-22:

	2017- 18	2018-19	2019- 20	2020-21	% change 2019-20/ 2020-21	2021-22 (Budget Estimate)
	<i>(Rupees billion)</i>				<i>%</i>	<i>(Rupees billion)</i>
Total revenue (I + II)	5,228	4,901	6,272	6,903	10	8,776
I. Tax revenue	4,467	4,473	4,748	5,273	11	6,484
Federal	4,066	4,072	4,334	4,764	10	5,829
of which FBR revenue	3,842	3,829	3,998	4,764	19	5,829
Provincial	401	402	414	508	23	655
II. Non-tax revenue (federal and provincial)	761	427	1,524	1,631	7	2,292
Total expenditure (I+II)	7,488	8,346	9,648	10,307	7	12,196
I. Current expenditure	5,854	7,104	8,532	9,084	6	10,321
Federal	3,790	4,776	6,016	6,265		7,417
Of which: interest	1,500	2,091	2,620	2,750	5	3,060
Of which: defence	1,030	1,147	1,213	1,316	9	1,370
Provincial	2,065	2,328	2,516	2,819	12	2,904
II. Development expenditure and net lending	1,622	1,219	1,204	1,316	9	1,875
PSDP	1,456	1,008	1,090	1,211	11	1,954
Other development	128	170	65	27	(58)	70
Net lending	38	41	49	77	57	-79
III. Statistical discrepancy	12	22	(87)	(93)	7	-
Overall fiscal balance	(2,260)	(3,445)	(3,376)	(3,403)	1	(3,420)

	2017- 18	2018-19	2019- 20	2020-21	% change 2019-20/ 2020-21	2021-22 (Budget Estimate)
						(Rupees billion)
		(Rupees billion)			%	
As % of GDP	(6.5)	(9.0)	(8.1)	(7.1)	(12)	(6.3)
Financing of fiscal deficit	2,260	3,445	3,376	3,403	1	3,420
External sources	785	417	896	1,338	49	1,246
Domestic sources (I + II + III)	1,475	3,028	2,481	2,065	(17)	2,174
I. Bank	1,120	2,263	1,941	1,869	(4)	681
II. Non-bank	353	765	540	196	(64)	1,241
III. Privatisation proceeds	2	-	-	-	-	252
GDP at market price (<i>billions of Rupees</i>)	34,616	38,086	41,556	47,709	15	53,867

(1) Provisional
Source: Budget Wing, Ministry of Finance

Revenue and Expenditure

Pakistan's fiscal performance in 2016-17 to 2018-19 has been adversely affected due to unproductive expenditures on the one hand and lower than expected tax revenues on the other hand. This has narrowed the space for public investment and social safety nets. High fiscal deficit has therefore become the norm for Pakistan's governments, with high interest payments, untargeted subsidies, including energy subsidies, loss-making public sector enterprises and security-related expenditure all contributing to the expanding fiscal deficit. Fiscal deficit increased to 5.8 per cent. and 6.5 per cent. in 2016-17 and 2017-18, respectively. In these two years, total revenue growth experienced a slowdown (5.9 per cent. in 2017-18 as compared to 11.0 per cent. in 2016-17), while total expenditure growth was reduced to 10.1 per cent. in 2017-18 as compared to 17.3 per cent. in 2016-17.

Pakistan's fiscal deficit in 2018-19 amounted to 9.0 per cent. of GDP. It was not only higher than fiscal deficits in both 2017-18 and 2016-17, but also higher than the revised target for fiscal deficit of 7.2 per cent. of GDP (published in April 2019), which resulted in exceeding the targeted deficit by Rupees 686 billion. The single biggest reason for the increase in fiscal deficit was the shortfall in Federal Board of Revenue (FBR) tax revenues in the amount of Rupees 321 billion in 2018-19. This shortfall was principally driven by (i) a fall in imports in 2018-19, which typically account for 45 per cent. of total FBR tax collections in customs duties, general sales tax and excise duties, and (ii) the decision of the Government to shield domestic consumers from rising oil prices, which resulted in over Rupees 100 billion shortfall in general sales tax collections. On the expenditures side, the rise in interest rates and a weaker Rupee have led to a significant increase in the Government's debt servicing costs. Expenditure overruns were also necessitated by the need to expand social safety nets and higher investment spending under the PSDP. If the Government had decided to curtail these expenditures further, it could have led to further slowdown in GDP growth and caused a hard landing for the economy already undergoing major monetary and exchange rate adjustments.

The Government rolled out a number of tax and administrative measures in the budget for 2019-20 to enhance revenue mobilisation. These included reversal of earlier tax exemptions to certain sectors, increasing income tax rates and upward revision in sales tax and federal excise duty rates on selected items. On the administrative front, e-filing and refund systems were improved to help businesses and other taxpayers and promote the filing culture. Prior to the COVID-19 pandemic, Pakistan's economy was transitioning from stabilisation to growth as a result of series of policy measures introduced in 2018-19. These measures addressed the economic imbalances and paved the way for better economic

outcomes in 2019-20. In particular, the fiscal sector witnessed a considerable improvement during the first three quarters of 2019-20 on account of various policy interventions to improve the revenues and prudent expenditure management. However, the downturn in economic activity and higher COVID-19-related expenditures made fiscal management difficult in the last quarter of 2019-20. Despite significant challenges, better fiscal performance in early 2019-20 enabled the Government to withstand the pandemic shock and helped in containing the overall fiscal deficit to 8.1 per cent. of GDP in 2019-20, down from 9.0 per cent. in 2018-19. Similarly, the primary balance posted a deficit of 1.8 per cent. of GDP during 2019-20 against the deficit of 3.6 per cent. of GDP in 2018-19.

The total revenue increased by 15.1 per cent. of GDP in 2019-20 surpassing its revised target of 14.3 per cent. of GDP for the year. In terms of growth, it grew by 28.0 per cent. in 2019-20 against the negative growth of 6.3 per cent. recorded in the preceding year. The increase in revenues in 2019-20 is largely attributed to (i) a sharp rise in non-tax revenue, which grew by 256.7 per cent. during 2019-20 as a result of a sharp rise in the SBP profit and in Pakistan Telecommunication Authority profit and mark-up payments by the public sector enterprises, and (ii) modest growth in tax collection.

On the expenditures side, prior to COVID-19, steps to strengthen fiscal discipline assisted the Government in accumulating much-needed funds for social and development spending. However, additional spending requirements for economic revival, health and social relief built significant pressure on the public finances and triggered increase in the total spending. In 2019-20, total expenditure grew by 15.6 per cent. to Rupees 9,648.5 billion (23.2 per cent. of GDP) against Rupees 8,345.6 billion (21.9 per cent. of GDP) in 2018-19.

In 2020-21, the primary fiscal deficit decreased to 1.4 per cent. of GDP as compared to 1.8 per cent. of GDP in 2019-20 and the fiscal deficit decreased to 7.1 per cent. of GDP as compared to 8.1 per cent. of GDP in 2019-20. In the fiscal year 2020-21, total revenue grew by 10.1 per cent. as compared to the growth of 28.0 per cent. in the fiscal year 2019-20. In absolute terms, total revenue increased to Rupees 6,903 billion in 2020-21 from Rupees 6,272 billion in 2019-20 principally due to growth in tax revenue.

Total tax revenue (federal and provincial) grew by 11.1 per cent. in 2020-21 and amounted to Rupees 5,273 billion as compared to Rupees 4,748 billion in 2019-20. Within the total, federal tax collection witnessed a significant increase as it grew by 9.9 per cent. to reach Rupees 4,764 billion in 2020-21 period as compared to Rupees 4,334 billion in 2019-20. The revenue performance is not only a reflection of growing economic activities, but it also suggests that the efforts to improve tax collection through various policy and administrative reforms have been successful.

Non-tax revenue grew by 7.0 per cent. in 2020-21 after witnessing an even stronger growth 2019-20. Non-tax revenue amounted to Rupees 1,631 billion in 2020-21 as compared to Rupees 1,524 billion in 2019-20.

In 2020-21, total expenditure grew by 6.8 per cent. as compared to a 15.6 per cent. growth observed in 2019-20. The efficient expenditure management helped in curtailing the overall expenditure during 2020-21. In absolute terms, the expenditures stood at Rupees 10,307 billion (21.6 per cent. of GDP) in 2020-21 as compared to Rupees 9,648 billion (23.2 per cent. of GDP) in 2019-20.

The current expenditure grew at 6.5 per cent. in 2020-21 as compared to the growth of 20.1 per cent. growth recorded in 2019-20. In absolute terms, current expenditure amounted to Rupees 9,084 billion in 2020-21 period as compared to current expenditure of Rupees 8,532 billion in 2019-20. The interest payments (debt servicing) grew by 5.0 per cent. in 2020-21 on account of higher growth in domestic debt servicing. In absolute terms, interest payments increased to Rupees 2,750 billion in 2020-21 from Rupees 2,620 billion in 2019-20. Higher domestic debt servicing was observed during the 2020-2021 as a result of higher amount of government domestic debt (Rupees 26.3 trillion as at 30 June 2021 as compared to Rupees 23.3 trillion as at 30 June 2020) that was increased to finance the federal fiscal deficit. On the other hand, the foreign debt servicing witnessed a significant decrease in 2020-21

decreasing to Rupees 225.9 billion as compared to Rupees 306.6 billion in 2019-20 principally due to re-fixing of floating rate debt at much lower rates due to substantial decrease in international reference rates (such as LIBOR), exchange rate appreciation (Rupee strengthening) and interest servicing deferment through the Debt Service Suspension Initiative (**DSSI**).

The total development expenditure (excluding net lending) amounted to Rupees 1,239 billion in 2020-21 as compared to Rupees 1,155 billion in 2019-20. During 2020-21, PSDP spending (federal and provincial) increased by 11.1 per cent. to reach Rupees 1,211 billion as compared to Rupees 1,090 billion in 2019-20. The expenditure on federal PSDP (net excluding development grants to provinces) decreased from Rupees 468 billion in 2019-20 to Rupees 441 billion, while development grants to provinces and provincial PSDP both increased in 2020-21 as compared to 2019-20.

Total financing in 2020-21 amounted to Rupees 3,403 billion, an increase of 0.8 per cent. as compared to 2019-20 when it amounted to Rupees 3,376 billion. Domestic and external resources generated Rupees 2,065 billion and Rupees 1,338 billion, respectively, to finance the fiscal deficit in 2020-21. Within domestic sources, financing from banks amounted to Rupees 1,869 billion and from non-banks to Rupees 196 billion during in 2020-21.

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

	2016-17	2017-18	2018-19	2019-20 ⁽¹⁾	2020-21 ⁽¹⁾ Budget Estimate	2021-22 Budget Estimate
Overall fiscal deficit	5.8	6.5	9.0	8.1	7.1	6.3
Expenditure						
Total	21.3	21.6	21.9	23.2	21.6	22.6
Current	16.3	16.9	18.7	20.5	19.0	19.2
Development and net lending	5.3	4.7	3.2	2.9	2.8	3.5
Revenue						
Total	15.5	15.1	12.9	15.1	14.5	16.3
Tax	12.4	12.9	11.7	11.4	11.1	12.0
Non-tax	3.0	2.2	1.1	3.7	3.4	4.3

(1) On basis of revised GDP numbers

Source: Budget Wing, Ministry of Finance

Tax Collection

Despite progress in recent years, Pakistan has low tax revenues, which constrains its ability to meet the spending needs arising from the social security system, security challenges and infrastructure required to support economic growth. The tax-to-GDP ratio increased from 10.2 per cent. in 2013-14 to 12.9 per cent. in 2017-18. However, Pakistan's tax-to-GDP ratio decreased to 11.6 per cent. in 2018-19 and then slightly further decreased to 11.4 per cent. in 2019-20 and 11.1 per cent. in 2020-21. With respect to the FBR tax-to-GDP ratio, it increased from 9.0 per cent. in 2013-14 to 11.1 per cent. in 2017-18, but then decreased to 10.1 per cent. in 2018-19 and then further decreased to 9.6 per cent. in 2019-20 before increasing to 10.0 per cent. in 2020-21. The significant decrease in tax collections as percentage of GDP in 2018-19 was principally due to the suspension of withholding tax on telecommunications companies by the Supreme Court, reduced Government spending, reduced rates on salary income and a decrease in imports.

The FBR's tax collection weakened from March 2020 onwards, with all the major revenue categories reporting year-on-year declines during the March to June 2020 period. As the bulk of revenue collection typically occurs at quarter-ends, even the third quarter of 2019-20 witnessed a substantial fall in revenue growth, whereas the revenue growth in the fourth quarter plummeted into negative territory. In overall terms, COVID-19 resulted in an estimated loss of approximately one trillion Rupees in tax revenue, as

the full year collection stood at Rupees 3,997.9 billion. The expenditure side also took a similar hit, as the Government spent heavily on health and cash transfers in the fourth quarter of 2019-20 to control the disease spread and alleviate unfavourable social outcomes. Current expenditures in the fourth quarter of 2019-20 were approximately one trillion Rupees higher than the average spending in the first three quarters.

The FBR tax revenue increased by 4.4 per cent. in 2019-20 as compared to a decrease of 0.4 per cent. in 2018-19. The tax revenue growth recorded during the July 2019 to February 2020 period principally resulted from the measures announced in the 2019-20 budget. Revenue mobilisation increased following the elimination of the preferential tax treatment for certain sectors (for example, sugar, steel and edible oil) and withdrawal of the zero-rating regime for five export-oriented sectors (textile, leather, carpets, sports goods and surgical goods). Similarly, measures such as the increase in sales tax rates, especially on petroleum products and sugar; upward revision in income tax rates for both salaried and non-salaried persons; reinstatement of withholding tax and sales tax on mobile top-ups; increased excise duty on cement and cigarettes and upward adjustment in power tariffs supported the revenue collection. Keeping in view the encouraging growth in tax revenues during the July 2019 to February 2020 period, it was expected that the FBR would meet its revised revenue target of Rupees 4,803 billion. However, the target had to be substantially revised down to Rupees 3,907 billion because of the COVID-19-related developments.

Direct taxes increased by 5.4 per cent. during 2019-20, as compared to a decrease of 5.9 per cent. in 2018-19. This was principally due to higher growth in withholding taxes, which offset the decreases in voluntary payments and collection on demand. Indirect taxes, constituting more than 60 per cent. of the overall FBR taxes, increased by 3.8 per cent. in 2019-20 as compared to a 3.3 per cent. increase in 2018-19. After recording a double-digit growth in the first and second quarters of 2019-20, the collections deteriorated in the third quarter of 2019-20 because of the impact of the COVID-19 pandemic.

The economic recovery that started to unfold during the first quarter of 2020-21 further accelerated in the subsequent months. The Government's measures in the wake of COVID-19 along with sector-specific support policies helped in the revival of domestic economic activity during 2020-21. In particular, the industrial sector gained significant momentum on the back of rising construction activities. All these developments, along with the ongoing comprehensive tax measures and administrative reforms, have paid off in a substantial rise in FBR tax collection. The FBR tax collection achieved double-digit growth in 2020-21 increasing by 19.2 per cent. to Rupees 4,764 billion as compared to Rupees 3,998 billion in 2019-20.

The net collection of direct taxes registered an increase of 13.6 per cent. in 2020-21, increasing from Rupees 1,524 billion in 2019-20 to Rupees 1,732 billion in 2020-21. The bulk of the tax revenue of direct taxes is realised from income tax. The major contributors of income tax are withholding tax, voluntary payments and collection on demand. The net collections of indirect taxes have witnessed a growth of 22.6 per cent. in 2020-21. It is accounted for 64 per cent. of the total FBR tax revenue during this period.

Allocation of Revenue between the Federal Government and Provinces. The Constitution governs the relationship between the federal 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 Ministers 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 of Parliament 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 (the seventh NFC Award) 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 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 federal 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. and 45.0 per cent. (in 2009-10) through an amendment in the fifth NFC Award made by President's Order No. 1 of 2006.

The NFC Award was historically 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 2009-10 to 56 per cent. in 2010-11 and further increased to 57.5 per cent. from 2011-12 onwards. The share of the federal government in the net proceeds of the divisible pool was 44 per cent. for 2010-11, but decreased to 42.5 per cent. for 2011-12 onwards. According to the current seventh NFC Award, divisible pool transfers to provinces amounted to Rupees 1,834.0 billion in 2016-17, Rupees 2,122.9 billion in 2017-18, Rupees 2,302.6 billion in 2018-19, Rupees 2,404.5 billion in 2019-20 and Rupees 2,617.3 billion in 2020-21.

According to the distribution of resources under the seventh NFC Award, federal transfers to provinces (divisible pool and straight transfers) in the 2021-22 budget are expected to reach Rupees 3,412 billion (Rupees 3,310 billion of which are from the divisible pool taxes) in 2021-2022 as compared to Rupees 2,742 billion in federal transfers to provinces achieved in 2020-2021.

The eighth NFC Award was constituted on 21 July 2010, but did not give an Award as the seventh Award had been implemented shortly before. The ninth NFC was constituted on 24 April 2015 and met for the first time on 28 April 2015 when it created four working groups to undertake thematic studies to assist the NFC deliberations.

After the July 2018 elections, the ninth NFC was reconstituted in consultation with provincial governments. The reconstituted NFC has held two meetings on 6 February 2019 and 29 March 2019 at Islamabad and Lahore, respectively. The ninth NFC also could not give Award and, after the expiration of its term, the tenth NFC was set up on 12 May 2020. The first meeting of the tenth NFC Award was held on 18 February 2021. Six sub-groups were created at this meeting to prepare sectoral recommendations. The meeting did not set a schedule for future meetings or deadlines for completion of studies on six thematic topics.

The following table sets out divisible pool transfers:

2016-17	2017-18	2018-19	2019-20	2020-21	2021-22 (Budget Estimate)
<i>(Rupees billion)</i>					
1,834.0	2,122.9	2,302.6	2,404.5	2,617.3	3,310.5

PUBLIC DEBT

Government borrowing remains a vital part of financing mechanism for developing countries like Pakistan and a requirement dictated by the level of fiscal deficit. This is a routine function of most sovereigns across the globe and most economies world-wide rely on these debt inflows to cover the shortfall in available resources to fund government's spending requirements. Some expenditures are mandatory in nature, which include, among others, expenditures on defense, interest servicing, salaries, pensions, subsidies and health and education. Borrowed funds are at times also required for resource-intensive infrastructure projects, subsidies and poverty eradication projects that are geared towards facilitating economic growth and achieving social development goals.

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).

Pakistan's gross public debt as at 30 September 2021 was Rupees 41,466 billion. Pakistan's gross public debt as at 30 June 2021 was Rupees 39,861 billion (83.5 per cent. of GDP), registering an increase of Rupees 3,462 billion as compared to 30 June 2020. This increase in gross public debt was lower when compared with the increase in gross public debt in 2019-20. The increase in gross public debt in 2020-21 was also lower than the federal government fiscal deficit in the same fiscal year. The differential was primarily attributable to appreciation of the Rupee against the U.S. dollar by approximately 6.5 per cent, which led to a decrease in the value of external public debt when converted into Rupees.

Total debt of the government (gross public debt minus deposits of the government (including the federal government and the provincial governments) with the banking system) amounted to Rupees 37,160 billion as at 30 September 2021 as compared to Rupees 35,753 billion as at 30 June 2021 and Rupees 33,235 billion as at 30 June 2020. The composition of Pakistan's public debt has been weighted in favour of domestic debt over the past few years. As at 30 September 2021, government domestic debt was Rupees 26,444 billion as compared to Rupees 26,265 billion as at 30 June 2021 and 23,283 billion as at 30 June 2020. Government external debt (including debt from the IMF) amounted to Rupees 15,022 billion as at 30 September 2021 as compared to Rupees 13,595 billion as at 30 June 2021 and Rupees 13,116 billion as at 30 June 2020.

The following table sets for the composition of Pakistan's Gross public debt as at 30 June for the fiscal years stated and as at 30 September 2021:

	2016-17	2017-18	2018-19	2019-20	2020-21	30 September 2021 ⁽¹⁾
	<i>(Rupees billion)</i>					
Government domestic debt	14,849	16,416	20,732	23,283	26,265	26,444
Government external debt (including debt from the IMF)	6,559	8,537	11,976	13,116	13,595	15,022
Gross public debt	21,409	24,953	32,708	36,399	39,861	41,466
Total debt of the government⁽²⁾	19,635	23,024	29,521	33,235	35,753	37,160
	<i>(% of GDP)</i>					
Government domestic debt	46.5	47.4	54.4	56.0	55.1	49.1
Government external debt (including debt from the IMF)	20.5	24.7	31.4	31.6	28.5	27.9
Gross public debt	67.1	72.1	85.9	87.6	83.5	77.0

Total debt of the government⁽¹⁾	61.5	66.5	77.5	80.0	74.9	69.0
	<i>(% of revenues)</i>					
Government domestic debt	301	314	423	371	380	301
Government external debt (including debt from the IMF)	133	163	244	209	197	171
Gross public debt	434	477	667	580	577	472
	<i>(% of total debt)</i>					
Government domestic debt	69.4	65.8	63.4	64.0	65.9	63.8
Government external debt (including debt from the IMF)	30.6	34.2	36.6	36.0	34.1	36.2
Foreign currency debt (<i>U.S.\$ billion</i>)	62.5	70.2	73.4	78.0	86.4	88.0
Exchange rate (<i>Rupees/U.S.\$ at end of period</i>)	104.9	121.5	160.1	168.2	157.3	170.7
GDP (<i>Rupees billion</i>)	31,922	34,616	38,086	41,556	47,709	53,876 ⁽³⁾
Total revenue (<i>Rupees billion</i>)	4,937	5,228	4,901	6,272	6,903	8,776 ⁽⁴⁾

(1) Provisional

(2) Gross public debt minus deposits of the government (including the federal government and the provincial governments) with the banking system

(3) Projected for the fiscal year 2021-22

(4) Budget estimate

Source: State Bank of Pakistan

Public debt portfolio witnessed various developments during the fiscal year 2020-21, including the following:

- Around 73 per cent. of the net borrowing from domestic sources was through medium-to-long-term domestic government debt;
- Short-term debt in the form of Treasury Bills as a percentage of total domestic debt decreased to around 25 per cent. at the end of June 2021 as compared with 54 per cent. at the end of June 2018, resulting in a significant improvement in the profile of domestic debt over the last three years
- The profile of domestic debt has improved significantly during the tenure of present Government. Short-term debt as a percentage of total domestic debt has decreased to around 25 per cent. as at 30 June 2021 as compared with 54 per cent. as at 30 June 2018;
- In-line with the Government's commitment, no new borrowing was made from the SBP. In fact, the Government repaid Rupees 569 billion during the year against its debt owed to SBP. The cumulative debt retirement against SBP debt stood over Rupees 1.1 trillion during last two fiscal years;
- The Rupees 25,000, Rupees 15,000 and Rupees 7,500 denominations prize bonds were withdrawn from circulation in order to improve the documentation of the economy. The holders have been given options to (i) convert to premium prize bonds; or (ii) replace them with eligible National Savings Certificates; or (iii) encash at face value into their bank accounts;
- All institutional investors have been barred from investing in National Saving Schemes (NSS) with the objective to deepen the financial markets and lower the government's long-term borrowing costs by creating more competition for long-term government debt;

- Debt from multilateral and bilateral sources cumulatively constituted around 77 per cent. of external public debt portfolio as at 30 June 2021. A set of reforms initiated by the Government to improve the economy has brought strong support from multilateral development partners during last two years. This is expected to strengthen confidence and create additional support from development partners in the coming years, which is also expected to help in reducing the pressure on domestic sources of borrowing;
- Pakistan has entered the international capital market after a gap of over three years by successfully raising U.S.\$2.5 billion through a multi-tranche issuance of 5-, 10- and 30-year Eurobonds. This transaction generated strong interest among investors as leading global investors from Asia, Middle East, Europe and the US participated in the global investor calls and the order book. This was the first time when Pakistan has used a programme-based approach establishing a Global Medium-Term Note (GMTN) programme. The programme is expected to allow Pakistan to tap the market at short notice. The Government intends to make full use of this programme and become a regular issuer in the international capital markets;
- The Government introduced various new instruments to further develop the domestic securities market, attract more diversified investor base and to provide more flexibility and options to the investors as well as to the Government:
 - the Government started issuing 5-year sukuk with fixed rate rental payments from July 2020;
 - similar to conventional bonds, the Government introduced a re-opening mechanism in sukuk auctions in July 2020 to increase liquidity of the sukuk;
 - the Government started issuance of 3-, 5- and 10-year floating rate PIBs with quarterly coupon payments from October 2020; and
 - the Government introduced 2-year floating rate PIBs in November 2020 with quarterly coupon payments frequency and fortnightly interest rate re-setting.

Over the medium-term, the Government's objective is to reduce its "gross financing needs" through various measures principally including (i) better cash flow management through a treasury single account; (ii) lengthening of maturities in the domestic market taking into account cost and risks trade-off; (iii) developing a regular Islamic finance-based borrowing programme; and (iv) obtaining maximum available concessional external financing from bilateral and multilateral development partners to benefit from concessional terms and conditions.

Public Debt Sustainability

The IMF in its latest report on Pakistan acknowledged the following with respect to debt sustainability:

- Pakistan's public debt remains sustainable, especially as financing needs have decreased supported by the Government's multi-year efforts to lengthen debt maturities and a sizable debt relief in the context of the G20 Debt Service Suspension Initiative;
- Gross financing needs are also projected to continue to decline in the medium term on account of better cash and debt management;
- Pakistan's public debt profile has also improved despite the COVID-19 shock and the associated policy response coupled with the protracted recovery; and
- Public debt is projected to steadily decline over the medium term.

The international comparison also shows that Pakistan has performed much better in terms of managing its debt burden during the COVID-19 pandemic than most other countries. According to the IMF projections published in October 2021, the debt to GDP ratio is projected to increase by the end of 2021 by 18 percentage points for advanced economies, 10 percentage points for emerging markets and six percentage points for low-income developing countries from their pre-pandemic levels, while Pakistan's debt to GDP ratio witnessed an overall decline of over two percentage points from its pre-pandemic levels.

The debt-to-GDP ratio of Pakistan decreased to, and stood at, 83.5 per cent. as at 30 June 2021 and is projected to decrease further over the medium term to 74 per cent. by the end of June 2024 and to below 70 per cent. by the end of June 2026. The expected reduction in debt-to-GDP ratio is attributable to the Government's commitment to run primary surpluses, maintain low and stable inflation, promote measures that support higher long-term economic growth and follow an exchange rate regime based on economic fundamentals. With a narrower fiscal deficit, public debt is projected to enter a firm downward path while the Government's efforts to improve the maturity profile of the public debt is expected to enhance public debt sustainability.

Pakistan's external public debt burden is considered manageable with external public debt constituting around one third of total public debt. Multilateral and bilateral loans together constitute over 78 per cent. of the total external debt portfolio. These multilateral and bilateral loans are contracted at concessional terms (low cost and longer tenor) and are primarily utilised to remove structural growth anomalies and support reform in the areas of, for example, energy, taxation, business, trade and education.

External debt interest servicing was around 8 per cent. of total interest service in 2020-21.

Domestic Debt

Domestic debt consists of three main categories (i) permanent debt (medium and long-term); (ii) floating debt (short-term); and (iii) unfunded debt (primarily made up of various instruments available under National Savings Schemes).

In-line with the Public Debt Act 1944, the Government issues three broad types of marketable securities in order to raise debt, which are treasury bills (**T-bills**), PIBs and Government *Ijara* sukuk.

- T-bills are considered to be short-term securities and have maturities of 12 months or less at the time of issuance.
- PIBs are considered longer-term securities and have maturities of more than 12 months at the time of issuance. PIBs pay the entire face value at maturity and also pay profits at regular intervals until maturity. PIBs can be further categorised as fixed-rate PIBs and floating-rate PIBs.
 - Fixed-rate PIBs pay a fixed amount of profit on each profit payment date.
 - Floating-rate PIBs pay a variable amount of profit on each profit payment date. The profit rate is determined by adding a spread to an underlying reference rate such as 3- or 6-month T-bills yield.
- *Shari'ah* compliant government securities programme has also been in place since 2008-09. However, it still constitutes a small proportion of government domestic securities portfolio. The Government is aiming to increase the share of *Shari'ah* compliant securities to 10 per cent. in total government securities by the end of June 2023 as compared with 2 per cent. at the end of June 2020.

The following table provides a summary of outstanding domestic debt as at the end (30 June) of the fiscal years and as at 30 September 2021 and 30 November 2021:

	2016-17	2017-18	2018-19	2019-20	2020-2021	30 September 2021 ⁽¹⁾	30 November 2021 ⁽¹⁾
<i>(Rupees billion)</i>							
Permanent debt ⁽²⁾	5,533	4,659	12,087	14,031	15,939	15,881	17,414
Floating debt ⁽³⁾	6,551	8,889	5,501	5,578	6,680	6,931	5,793
Unfunded debt ⁽⁴⁾	2,765	2,868	3,144	3,674	3,646	3,632	3,620
Total	14,849	16,416	20,732	23,283	26,265	26,444	26,827
<i>(% of GDP)</i>							
Permanent debt ⁽²⁾	17.3	13.5	31.7	33.8	33.1	29.5	32.3
Floating debt ⁽³⁾	20.5	25.7	14.4	13.4	14.0	12.9	10.8
Unfunded debt ⁽⁴⁾	8.7	8.3	8.3	8.8	7.6	6.7	6.7
Total	46.5	47.4	54.4	56.0	55.1	49.1	49.8
<i>(% of total domestic debt)</i>							
Permanent debt ⁽²⁾	37.3	28.4	58.3	60.3	60.7	60.1	65.9
Floating debt ⁽³⁾	44.1	54.1	26.5	24.0	25.4	26.2	21.6
Unfunded debt ⁽⁴⁾	18.6	17.5	15.2	15.8	13.9	13.7	13.5
GDP at market price (<i>Rupees billion</i>)	31,922	34,616	38,086	41,556	47,709	53,876 ⁽⁵⁾	53,876 ⁽⁵⁾

(1) Provisional

(2) Permanent debt consists principally of medium-to-long term instruments, including PIBs, prize bonds, Government *Ijara* sukuk bonds and Naya Pakistan Certificates (Rupee component). PIBs are non-callable instruments with fixed and semi-annual coupon payments and have maturities of three, five, ten, fifteen, twenty and thirty years. Government *Ijara* sukuk are medium-term *Shari'ah*-compliant bonds currently issued with maturity of five years

(3) Floating debt consists mainly of short-term domestic instruments such as T-bills. T-bills are zero coupon or discounted instruments issued with maturities of three months, six months and 12 months. The Government borrows from Pakistan's domestic banks through auctions of T-bills. Such auctions are arranged by the SBP twice a month

(4) Unfunded debt principally consists of various instruments available under the National Savings Scheme. A number of different schemes are offered under National Savings Scheme with maturities ranging from three months to ten years. This debt is unfunded because investors benefit from put-options at any time over the life of the instruments they hold

(5) Projected for the fiscal year 2021-22

Source: State Bank of Pakistan

The government domestic debt increased by around Rupees 3.0 trillion during the fiscal year 2020-21, compared to an increase of Rupees 2.6 trillion in 2019-20. Apart from financing of the fiscal deficit, some borrowing was made to build cash buffer in anticipation of upcoming maturities. The maturity profile of government domestic debt improved in 2020-21 as compared to 2019-20. More than two thirds of the increase in domestic debt came from permanent debt, which includes longer-tenor instruments like PIBs and Government *Ijara* sukuk.

The following table provides a summary of outstanding domestic debt service requirements for the periods indicated:

	2016-17	2017-18	2018-19	2019-20	2020-21
Domestic outstanding debt (<i>Rupees billion</i>)	14,849	16,416	20,732	23,283	26,265
Domestic debt interest payments (<i>Rupees billion</i>)	1,220	1,323	1,821	2,313	2,524
Domestic interest payment as % of					
Total revenue	24.7	25.3	37.2	36.9	36.6
Current expenditure	23.5	22.6	25.6	27.1	27.8

Source: Ministry of Finance

External Debt

Government external debt (including debt from the IMF) was U.S.\$86.4 billion at the end of June 2021, witnessing a net increase of U.S.\$8.4 billion during the 2020-21 fiscal year. Apart from net external inflows, the increase in government external debt (including debt from the IMF) was due to revaluation losses as a result of the depreciation of U.S. dollar against other international currencies, which inflated the value of external debt in U.S. dollar terms. Overall, the review of the increase in government external debt (including debt from the IMF) reveals the following:

- Debt from multilateral and bilateral sources increased by U.S.\$3.5 billion. These loans were obtained primarily to support the spending on infrastructure projects and social sector. These loans were mostly contracted on favourable terms (low cost and longer tenor);
- Pakistan raised U.S.\$2.5 billion through a multi-tranche 5-, 10- and 30-year Eurobonds issued under its first ever Global Medium-Term Note Programme;
- Commercial loans, which were obtained from foreign commercial banks, increased by U.S.\$1.5 billion; and
- Net amount of U.S.\$0.9 billion was added through non-resident investments in government securities, Naya Pakistan Certificates and Pakistan Banao Certificates.

Pakistan's government external debt (including debt from the IMF) is derived from four key sources, with around 48 per cent. coming from multilateral loans, 30 per cent. from bilateral loans, 9 per cent. from Eurobonds/sukuk and 13 per cent. from commercial loans as at 30 June 2021. Although borrowing from commercial sources increased during the last few years, both in absolute terms and relative to other sources for external borrowings, multilateral and bilateral sources still cumulatively constituted 78 per cent. of government external debt (including debt from the IMF) portfolio as at 30 June 2021.

The following table summarises Pakistan's external debt as at the end (30 June) of the fiscal years and as at 30 September 2021:

		2016-17	2017-18	2018-19	2019-20	2020-21	30 September 2021 ⁽¹⁾
		<i>(U.S.\$ million)</i>					
A.	Government external debt and debt to the IMF (1 + 2)	62,539	70,237	73,449	77,994	86,424	88,023
1.	Government external debt	56,430	64,142	67,800	70,314	79,040	80,950
	(a) Medium and long term (>1 year)	55,547	62,525	66,536	68,773	78,182	79,660
	(b) Short term (<1 year)	882	1,617	1,264	1,542	858	1,289
2.	IMF	6,109	6,095	5,648	7,680	7,384	7,073
B.	Foreign exchange liabilities	3,564	5,121	10,488	9,891	8,763	11,645
C.	Public sector enterprises (1+2)	2,719	2,671	3,867	5,171	6,745	6,688
1.	Guaranteed debt	1,214	1,384	2,800	4,244	5,351	5,322

		2016-17	2017-18	2018-19	2019-20	2020-21	30 September 2021 ⁽¹⁾
2.	Non-guaranteed debt	1,505	1,287	1,067	927	1,394	1,366
D.	Banks	4,522	4,417	4,721	4,620	5,267	5,369
E.	Private Sector	6,759	9,195	10,496	11,009	10,886	11,094
Debt							
F.	Debt liabilities to direct investors / intercompany debt ⁽²⁾	3,375	3,597	3,328	4,329	4,125	4,205
Total external debt and liabilities (A + B + C + D + E + F)		83,477	95,237	106,349	113,013	122,209	127,023
Official liquid reserves		16,145	9,765	7,285	12,132	17,299	19,254
		(% of GDP)					
Total external debt and liabilities (A + B + C + D + E + F)		27.4	33.4	45.5	45.7	40.3	40.2
A.	Government external debt and debt to the IMF (1 + 2)	20.5	24.7	31.4	31.6	28.5	27.9
1.	Government external debt	18.5	22.5	29.0	28.5	26.1	25.6
	(a) Medium and long term (>1 year)	18.3	22.0	28.5	27.8	25.8	25.2
	(b) Short Term (<1 year)	0.3	0.6	0.5	0.6	0.3	0.4
2.	IMF	2.0	2.1	2.4	3.1	2.4	2.2
B.	Foreign exchange liabilities	1.2	1.8	4.5	4.0	2.9	3.7
C.	Public sector enterprises (1+2)	0.9	0.9	1.7	2.1	2.2	2.1
1.	Guaranteed debt	0.4	0.5	1.2	1.7	1.8	1.7
2.	Non-guaranteed debt	0.5	0.5	0.5	0.4	0.5	0.4
D.	Banks	1.5	1.6	2.0	1.9	1.7	1.7
E.	Private Sector	2.2	3.2	4.5	4.5	3.6	3.5
Debt							
F.	Debt liabilities to direct investors / intercompany debt ⁽²⁾	1.1	1.3	1.4	1.8	1.4	1.3
Notes:							
GDP (Rupees trillion)		31.9	34.6	38.1	41.6	47.7⁽¹⁾	53.9⁽³⁾
GDP (U.S.\$ billion)		304.4	284.8	233.6	247.1	303.3	315.7
Last day weighted average exchange rate (Rupees/U.S.\$)		104.9	121.5	163.1	168.2	157.3	170.5

(1) Provisional

(2) Based on the guidelines of IMF's external debt guide 2003, which states that "intercompany lending between entities in a direct investment relationship is separately presented because the nature of the relationship between debtor and creditor is different from that for other debt, and this affects economic behaviour. Whereas a creditor principally assesses claims on an unrelated entity in terms of the latter's ability to repay, claims on a related entity may be additionally assessed in terms of the overall profitability and economic objectives of the multinational operation"

(3) Projected for the fiscal year 2021-22

Source: State Bank of Pakistan

The following table shows information on inflows and outflows with respect to government external debt (including debt from the IMF) and on government external debt (including debt from the IMF) servicing for the periods stated:

	2016-17	2017-18	2018-19	2019-20	2020-21
	<i>(U.S.\$ millions)</i>				
DISBURSEMENTS					
Multilateral	3,166	2,813	2,021	8,329	4,809
Bilateral	1,941	1,971	4,377	1,398	1,275
Bonds	1,000	2,500	-	-	2,500
Commercial / Other	4,426	3,716	4,098	3,347	4,717
Total Inflows (A)	10,533	11,000	10,496	13,074	13,301
REPAYMENTS					
Multilateral	1,255	1,403	1,750	2,199	2,634
Bilateral	1,200	793	970	783	100
Bonds	750	-	1,000	1,000	-
Commercial / Other	1,922	1,995	3,634	5,061	4,201
Total Repayments (B)	5,127	4,190	7,355	9,043	6,935
Net Inflows (A-B)	5,406	6,809	3,140	4,031	6,366
INTEREST PAYMENTS					
Multilateral	381	485	584	637	598
Bilateral	441	444	541	484	115
Bonds	366	423	503	396	362
Commercial / Other	124	332	475	515	378
Total Interest Payments (C)	1,313	1,684	2,103	2,032	1,453
Total Debt Servicing (B+C)	6,440	5,874	9,458	11,075	8,388

Note: Data excludes disbursements from Naya Pakistan Certificates, Pakistan Banao Certificates and non-resident investment in government domestic securities

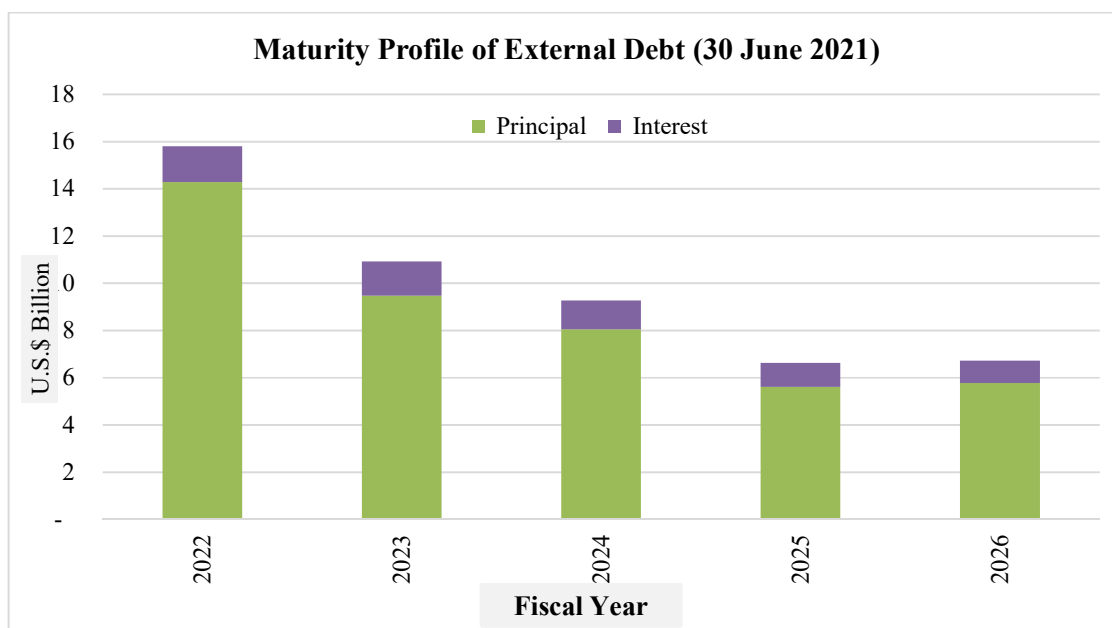
Source: *Economic Affairs Division and State Bank of Pakistan*

Total expenditure on government external debt (including debt from the IMF) servicing amounted to U.S.\$8,388 million in 2020-21, of which U.S.\$6,935 million was accounted for by principal repayments and U.S.\$1,453 million by interest payments. Government external debt (including debt from the IMF) servicing decreased in 2020-21 as compared to 2019-20. This reduction in repayments is primarily due to the DSSI initiative and no repayments of Eurobonds or international sukuk falling during the fiscal year 2020-21.

Interest payments amounted to U.S.\$1,453 million in 2020-21 as compared to U.S.\$2,032 million in 2019-20. The factors that reduced the external interest servicing during the fiscal year 2020-21 were (i) significant reduction in global interest rates due to the COVID-19 pandemic, which led to lower interest payments on floating rate external debt and (ii) interest servicing deferment under the DSSI.

Pakistan's external debt remains on sustainable path, which has also been endorsed by the IMF. With improved balance of payment situation, external debt sustainability is expected to improve further going forward.

The following chart describes projected payments of external debt (inclusive of U.S.\$4.0 billion of SAFE China deposit maturity in the fiscal year 2021-22):



Source: Debt Policy Coordination Office

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 the resulting agreement, 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 that applied under 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.

Issuance of Bonds and International Sukuk. Pakistan has issued Eurobonds and international sukuk in the international capital markets. There are eight international issues outstanding as set forth in the table below:

Sr. No.	Issuer Name	Issue Date	Maturity Date	Face Value USD Million	Coupon % p.a.
1	International Sukuk	5-Dec-17	5-Dec-22	1,000	5.625
2	Eurobond	15-Apr-14	15-Apr-24	1,000	8.250
3	Eurobond	30-Sep-15	30-Sep-25	500	8.250
4	Eurobond	5-Dec-17	5-Dec-27	1,500	6.875
5	Eurobond	30-Mar-06	31-Mar-36	300	7.875
6	Eurobond	08-Apr-21	08-Apr-26	1,300	6.000
7	Eurobond	08-Apr-21	08-Apr-31	1,400	7.375
8	Eurobond	08-Apr-21	08-Apr-51	800	8.875
Total				7,800	

Source: Bloomberg (as of 31 December 2021)

Progress on the Medium-Term Debt Management Strategy

Certain indicative ranges were defined in Medium-Term Debt Management Strategy (MTDS) of Pakistan (2019/20 - 2022/23) to monitor the risks with respect to total public debt portfolio and to seek to ensure its sustainability. The progress on MTDS during the fiscal year 2019-20 and the fiscal year 2020-21 is described in the table below:

Risk Exposure	Indicators	Indicative Benchmarks (Fiscal Year 2019-20 – Fiscal Year	Fiscal Year 2019-20		Fiscal Year 2020-21	
			Target	Actual	Target	Actual
Currency risk	Share of external debt in total public debt	40% (Maximum)	-	36	-	34
	Average time to maturity of domestic debt (<i>Years</i>)	3.5 (Minimum)				
Refinancing risk	Average time to maturity of external debt (<i>Years</i>)	6.5 (Minimum)	4.0	4.1	4.0	3.6
	Gross financing needs (% of total)	35% (Maximum)	32	31	30	28
	Share of <i>Shari'ah</i> -compliant instruments in government securities (%)	-	2.0	2.0	5.0	3.9
	Share of fixed rate debt in government securities (%)	25% (Minimum)	30	34	30	30

Note: Total Means Total Public Debt at the end of relevant period

Source: Debt Policy Coordination Office, Ministry of Finance

As evident from the table above, the Government remained within the stated benchmarks of risk indicators during the fiscal year 2020-21. However, several annual targets set for the fiscal year 2020-21 with respect to debt risk indicators were missed principally due to the following reasons:

- higher than expected federal fiscal deficit;
- lower than planned issuance of sukuk;
- net retirement in NSS stock principally due to the encashment of prize bonds;
- non-materialisation of expected privatisation proceeds;
- running-off of the existing government external debt (including debt from the IMF) portfolio and slightly higher mobilisation from commercial sources (loans from foreign commercial banks and Eurobonds); and
- the need to build the cash buffer in anticipation of upcoming maturities.

Conclusion

Over the medium-term, Pakistan's strategy to reduce its debt burden to a sustainable level includes commitment to run primary surpluses, promote measures that support higher long-term economic growth and efficient/productive utilisation of debt. With narrower fiscal deficit, public debt is projected to enter a firm downward path, while the Government's efforts to improve maturity structure are expected to enhance public debt sustainability.

The Government is committed to accomplish objectives outlined in FRDL Act, 2005. Going forward, the prime objectives of public debt management remain as follows: (i) fulfilling the financing needs of the Government at the lowest possible cost, consistent with prudent degree of risk; (ii) reducing its "Gross Financing Needs" through various measures; (iii) broadening the investor base and further developing a well-functioning domestic debt capital market; (iv) lengthening of the maturity profile of the Government's domestic debt portfolio to reduce the re-financing and interest rate risks; and (v) mobilisation of maximum available concessional external financing to enhance potential output of the economy by promoting efficiency and productivity, thus simultaneously adding to the debt repayment capacity of the country.

Relationship with Multilateral and Bilateral Creditors

Pakistan receives economic assistance from multilateral and bilateral creditors as follows:

World Bank. As reported in June 2021, the World Bank Group had a portfolio of U.S.\$13.8 billion in Pakistan (U.S.\$9.1 billion through the International Development Association (**IDA**), U.S.\$4.4 billion through the International Bank of Reconstruction and Development (**IBRD**) and U.S.\$256 million (grant) in trust funds). This portfolio is supporting reforms and investments to strengthen institutions, particularly in fiscal management and human development. Partnerships are being strengthened at provincial levels, focusing on multi-sectoral initiatives in areas such as children's nutrition, education and skills, irrigated agriculture, energy, water, tourism, disaster risk management, urban development and governance.

The World Bank's programme in Pakistan is governed by the Country Partnership Strategy for fiscal years 2015-2021 with four priority areas of engagement: energy, private sector development, inclusion and service delivery. The World Bank Group is in the process of preparing a new Country Partnership Framework for Pakistan that will outline its strategic support in the country for the period from 2022 to 2026.

As at 30 September 2021, the IBRD had commitments totalling U.S.\$4,401 million under eight grants and 15 non-guaranteed loans, of which U.S.\$3,047 million was undisbursed as at that date. As at 30 September 2021, Pakistan's outstanding debt to the IBRD amounted to U.S.\$1,874 million.

As at 30 September 2021, the IDA had commitments totalling U.S.\$9,208 million under 36 non-guaranteed loans and grants including IDA grants as part of co-financing in six IDA projects, of which U.S.\$5,439 million was undisbursed as at that date. As at 30 September 2021, Pakistan's outstanding debt to the IDA amounted to U.S.\$16,451 million.

In December 2021, the World Bank's Board of Executive Directors approved U.S.\$195 million in funding to help Pakistan improve its energy distribution and improve consumer service quality.

Asian Development Bank (ADB). The Asian Development Bank (**ADB**) provides various types of financial support to Pakistan, including programme lending, project loans, grants and technical assistance to bridge the financing gap and meet the development needs of the country. The ADB is one of the largest development partners of Pakistan. From 1966 to 30 September 2021, the ADB has committed U.S.\$36.3 billion for 807 projects and technical assistance programmes in key priority areas including energy, road and transport, agriculture and water, social sector and economic reforms. Of this committed amount, the ADB has disbursed U.S.\$27.0 billion to Pakistan.

The Government of Pakistan concurred with the new Country Operations Business Plan (2020 – 2023) on 23 October 2020 and with the new Country Partnership Strategy (2021 – 2025) on 23 November 2020. The Country Partnership Strategy (2021-2025) is intended respond to economic and social challenges in the aftermath of the COVID-19 pandemic and seeks to ensure support to address financial and structural challenges. The ADB has indicated resource allocation of approximately U.S.\$6.3 billion for 44 projects in Pakistan.

As at 30 September 2021, the ADB had an ongoing portfolio of U.S.\$7.0 billion for 32 projects in energy, road and transport, water and agriculture, urban development, public-private partnership, disaster risk reduction and social sector. As of the same date, Pakistan's active technical assistance portfolio totalled U.S.\$53.3 million and comprised 32 technical assistance projects.

As at 30 September 2021, the ADB had commitments totalling U.S.\$9,416 million under 14 grants and 66 non-guaranteed loans, of which U.S.\$4,362 million was undisbursed as at that date.

As at 30 September 2021, Pakistan's outstanding debt to the ADB amounted to U.S.\$15,582 million.

In December 2021, the ADB approved a U.S.\$603 million lending programme to strengthen and expand social protection programmes in Pakistan. Using conditional cash transfers, the programme will support the implementation of Ehsaas, Pakistan's national social protection and poverty reduction strategy. Under the Integrated Social Protection Development Programme, the ADB is expected to provide a regular loan of U.S.\$600 million and a U.S.\$3 million grant from the Asian Development Fund.

Furthermore, the ADB approved the following additional project and programme loans for Pakistan (i) a U.S.\$300 million policy-based loan to support financial, technical and governance reforms to strengthen Pakistan's energy sector as well as to improve its financial sustainability (Pakistan already received these U.S.\$300 million from the ADB in December 2021); (ii) a U.S.\$235 million loan to upgrade 222-kilometre Shikarpur-Rajanpur section of the National Highway 55 from two lanes to four lanes; (iii) a U.S.\$380 million loan and a U.S.\$5 million grant as part of the U.S.\$650 million financing (that also includes a U.S.\$200 million loan by the Asian Infrastructure Investment Bank discussed below) to help improve the livability of five cities in Pakistan's Khyber Pakhtunkhwa province by upgrading urban infrastructure and expanding access to reliable services and (iv) a U.S.\$200 million loan for the development of an irrigation system in Punjab province that is expected to help to increase agricultural productivity and food security.

Islamic Development Bank (IsDB). Pakistan joined the IsDB on 12 August 1974 as a founding member. Pakistan is the second largest beneficiary of the IsDB Group financing among its 57 member countries. From 1974 up to 30 September 2021, the IsDB Group approved total financing of U.S.\$14.2 billion for Pakistan. Over the last five years (2016-20), there has been a significant increase in IsDB Group's approvals, with the total amount of such approvals (U.S.\$3.8 billion) accounting for almost 30 per cent. of total approvals since 1974.

As at 30 September 2021, the IsDB had medium- and long-term commitments totalling U.S.\$970 million under four grants and seven non-guaranteed loans, of which U.S.\$509 million was undisbursed as at that date. As at the same date, the IsDB had short-term commitments totalling U.S.\$2,973 million under 11 non-guaranteed loans, out of which US\$2,923 million have been disbursed.

As at 30 September 2021, Pakistan's outstanding medium- and long-term debt to the IsDB amounted to U.S.\$987 million, while its outstanding short-term debt to the IsDB amounted to U.S.\$979 million.

In December 2021, the IsDB approved U.S.\$252.5 million for financing of two projects in Pakistan. U.S.\$180 million is expected to be used to contribute to financing of the strategic Mohmand Dam and Hydropower Project in Pakistan's Khyber-Pakhtunkhwa province, while the remaining U.S.\$72.5 million of funding is expected to be used to support Pakistan's nationwide vaccination efforts in the face of the ongoing COVID-19 pandemic.

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 the 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.

With respect to the first project of the AIIB in Pakistan, the Shorkot-Khanewal section of the M-4 Motorway, the AIIB has committed U.S.\$100 million for this project, of which U.S.\$80.3 million was disbursed while the remaining part of the loan was cancelled. The AIIB has approved U.S.\$300 million for its second project in Pakistan, the Tarbella-V extension project, of which U.S.\$259.3 million remained undisbursed as at 31 December 2021.

In December 2019, the AIB provided a sovereign-backed loan in the amount of U.S.\$40 million to improve access to safe water services in Karachi. It has also approved U.S.\$72 million for the Karachi Bus Rapid Transit – Red Line project.

After the outbreak of the COVID-19 pandemic, the AIIB offered a Crisis Recovery facility to support the member countries. Pakistan benefited from this facility through two loans under the Resilient Institutions for Sustainable Economy programme and the COVID-19 Active Response and Expenditure Support programme in the amounts of U.S.\$250 million and U.S.\$500 million, respectively. These loans were fully disbursed in 2020.

As at 30 September 2021, the AIIB had commitments totalling U.S.\$416.6 million under two grants and three non-guaranteed loans, of which U.S.\$298.2 million was undisbursed as at that date.

As at 30 September 2021, Pakistan's outstanding debt to the AIIB amounted to U.S.\$869 million.

In December 2021, the AIIB approved a U.S.\$200 million loan to improve water supply and sanitation in the cities of Abbottabad, Kohat, Mardan, Mingora and Peshawar by enhancing water supply systems and sewerage networks benefitting up to 3.5 million people as part of the joint U.S.\$650 million financing with ADB discussed above.

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

China. China provides extensive economic assistance to Pakistan. As at 30 September 2021, China had commitments totalling U.S.\$6,447.5 million under 12 grants and 10 non-guaranteed loans, of which U.S.\$736.7 million was undisbursed as at that date.

As at 30 September 2021, Pakistan's outstanding debt to China amounted to U.S.\$14,480 million.

European Union. The European Union has a large development assistance programme in Pakistan focused on humanitarian work and promotion of democracy and economic growth. The basis of this relationship is the Memorandum of Understanding signed in 1991 between the Commission of the European Communities and Pakistan. The EU provides grant assistance for rural development, natural resources management, education and human resources development. Some other areas of Pakistan-EU development cooperation are trade, economic cooperation, democracy, human rights, counter terrorism, security and humanitarian assistance. The Memorandum of Understanding of the Multi-year Indicative Programme (MIP) 2014-2020 for Pakistan, with total funding amounting to euro 618 million, was signed on 15 December 2015 with respect to development assistance in the areas of rural development, education, good governance, human rights and rule of law.

As at 30 September 2021, the EU had commitments totalling U.S.\$847 million under 27 grants, of which U.S.\$690 million remained undisbursed as at that date.

France. As at 30 September 2021, France had commitments totalling U.S.\$803 million under six grants and 11 non-guaranteed loans, of which U.S.\$542 million was undisbursed as at that date.

As at 30 September 2021, Pakistan's outstanding debt to France amounted to U.S.\$1,682 million.

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. As at 30 September 2021, Japan had commitments with respect to an active portfolio of grants and non-guaranteed loans totalling U.S.\$512 million under 16 grants and three non-guaranteed loans, of which U.S.\$210 million was undisbursed as at that date.

As at 30 September 2021, Pakistan's outstanding debt to Japan amounted to U.S.\$5,116 million.

Saudi Arabia. As at 30 September 2021, Saudi Arabia had commitments totalling U.S.\$4,001 million under 10 grants and eight non-guaranteed loans, of which U.S.\$2,715 million was undisbursed as at that date.

As at 30 September 2021, Pakistan's outstanding debt to Saudi Arabia amounted to U.S.\$962 million.

In December 2021, Pakistan received a U.S.\$3 billion deposit from Saudi Arabia that is expected to help to support the country's foreign currency reserves and stabilise the local currency.

United Arab Emirates. Pakistan has received significant amounts of assistance from the United Arab Emirates since 1974. Funds have been used for, among other things, balance of payments support, drought assistance and infrastructure projects.

The UAE provided U.S.\$2.0 billion in financial assistance to Pakistan through two U.S.\$1.0 billion deposits made by the Abu Dhabi Fund for Developments with the SBP in January and March 2019. The first of these deposits matured in January 2021 and was rolled over in full. The second deposit maturing in March 2021 was also rolled over.

United Kingdom. Pakistan has a significant bilateral relationship with the UK underpinned by the shared heritage, closely aligned strategic outlook and interests. Pakistan and the UK entered into a long-term development assistance relationship in 2006 by signing a 10-year Development Partnership Arrangement. A draft of a new Development Partnership Arrangement (**DPA**) was shared by the UK Department for International Development with the Economic Affairs Division of the Ministry of Finance in May 2019. The Government of Pakistan's stakeholders reviewed the draft of the DPA and their feedback has been shared with the UK's Foreign, Commonwealth and Development Office.

As at 30 September 2021, the UK had commitments totalling U.S.\$2,515 million under 16 grants, of which U.S.\$662 million was undisbursed as at that date. As at 30 September 2021, Pakistan's outstanding debt to the UK amounted to U.S.\$5 million.

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 in the form of non-repayable grants. Sectors that benefited from the assistance included energy security, food security, social development and affected areas. Subsequently, the duration of PEPA has been extended to September 2023. The U.S. government and Pakistan also signed an Assistance Agreement (**AAG**) in 2009 with a total grant of U.S.\$120 million. The U.S. government, through the United States Agency for International Development, made commitments of U.S.\$4,377 million under PEPA and AAG from 2010 to September 2021 on a grant basis, of which U.S.\$3,718 million have already been disbursed for the implementation of various projects.

Currently, the United States Agency for International Development is funding 12 government-to-government projects under PEPA with total commitment of U.S.\$1.05 billion, of which U.S.\$833 million have already been disbursed as of 30 September 2021.

Other creditors. Other principal sources of bilateral foreign economic assistance include Germany (with commitments of U.S.\$551 million as at 30 September 2021, of which U.S.\$297 million was undisbursed as of 30 September 2021), South Korea (with commitments of U.S.\$304 million as at 30 September 2021, of which U.S.\$201 million was undisbursed) and Kuwait (with commitments of U.S.\$65 million as at 30 September 2021, of which U.S.\$18.5 million was undisbursed).

USE OF PROCEEDS

The proceeds from the issue of each Tranche of Certificates will be applied by the Trustee pursuant to the terms of the relevant Purchase Agreement towards the purchase of (in the case of the first Tranche) the Assets or (in the case of each subsequent Tranche) the Additional Assets, as the case may be, from the Seller.

The amounts subsequently received by the Government in consideration for the transactions entered into with the Trustee as set out above will be applied by the Government for its general budgetary purposes. If there is a particular identified use of proceeds, it will be stated in the applicable Pricing Supplement.

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 (including by way of email distribution) from the specified office of the Principal Paying Agent. Words and expressions defined elsewhere in this Offering Circular shall have the same meanings in this section.

Master Purchase Agreement, as supplemented by each Supplemental Purchase Agreement

The Master Purchase Agreement will be entered into on 18 January 2022 between the Trustee (in its capacity as Purchaser) and the National Highway Authority (in its capacity as Seller) and will be governed by the laws of Pakistan. A Supplemental Purchase Agreement (together with the Master Purchase Agreement, the **Purchase Agreement**) between the Purchaser and the Seller will be entered into in relation to each Tranche and will also be governed by the laws of Pakistan.

Pursuant to each 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 the Assets or the Additional Assets, as the case may be, on or prior to the Issue Date in consideration for the purchase price, which shall be payable on the Issue Date, free from all claims, encumbrances and any other rights of third parties (including any rights, interest and entitlements of third parties granted or arising out of, or pursuant to, construction or financing contracts).

Master Lease Agreement, as supplemented by each Supplemental Lease Agreement

The Master Lease Agreement will be entered into on 18 January 2022 between the Trustee (in its capacity as Lessor), the Government (in its capacity as Lessee) and the Delegate and will be governed by the laws of Pakistan. A Supplemental Lease Agreement (together with the Master Lease Agreement, the **Lease Agreement**) between the Lessor, the Lessee and the Delegate will be entered into on or prior to the Issue Date of each Tranche and will also be governed by the laws of Pakistan.

Pursuant to the Lease Agreement, the Lessor may lease to the Lessee, and the Lessee may lease from the Lessor, the Lease Assets during renewable rental periods (which shall coincide with Return Accumulation Periods) commencing on the lease commencement date (which shall be the date of the Lease Agreement) and extending to the Scheduled Dissolution Date (unless: (a) the lease is terminated earlier in accordance with its terms; or (b) the lease is extended in accordance with the terms of the Purchase Undertaking) in consideration for periodic payments of Rental.

Pursuant to the Lease Agreement, no later than the first day of each rental period (other than the first rental period) the Lessor (or its agent) shall send a renewal notice to the Lessee. Each such notice shall be irrevocable and the Lessee will agree that, unless it rejects such notice on such day when such notice is given (in which case it acknowledges that it will be in breach of its undertaking to irrevocably and unconditionally lease from the Lessor for the lease term and that such breach will constitute a Government Event) it will be deemed to have accepted each such notice as and when delivered. Where there is any delay or failure by the Lessor in delivering a renewal notice, the Rental for the relevant rental period shall accrue at the same rate as the Rental for the immediately preceding rental period.

On each date on which the Service Agent submits to the Lessor or its agent a notice in writing requesting the Lessor's approval of the Service Agent incurring or paying any proposed liability comprising an additional servicing agency expense (the date of such notice, being an **Additional Service Agency Expense Request Date**), the Lessor (or its agent) shall submit to the Lessee a notice in writing requesting payment by the Lessor to the Lessor on the first business day of the rental period commencing immediately after such Additional Service Agency Expense Request Date an amount of additional supplementary rental in respect of that rental period (as shall also be specified in the relevant

renewal notice) equal to the relevant additional servicing agency expenses. Such notice shall be irrevocable and the Lessee will agree that, unless it rejects such notice on such Additional Service Agency Expense Request Date (in which case it acknowledges that such rejection will constitute a Government Event), it will be deemed to have approved such notice as and when submitted and agreed to pay the requested amount of additional supplementary rental in accordance with such notice and the relevant renewal notice.

The Lessee will agree in the Lease Agreement to use the Lease Assets at its own risk. Accordingly, the Lessee shall, from the date of the Lease Agreement, bear the entire risk of loss of or damage to the Lease Assets or any part thereof arising from the usage or operation thereof by the Lessee to the extent that such loss or damage has resulted from the Lessee's gross negligence, wilful default, actual fraud or breach of its obligations under the Lease Agreement. 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 use or operation of the Lease Assets, save to the extent that such loss or damage has resulted from the Lessor's gross negligence, wilful default, actual fraud or breach of its obligations under the Lease Agreement.

Pursuant to the Lease Agreement, following the occurrence of a Partial Loss Event, the Lessee will promptly give notice thereof (such notice, being a **Partial Loss Event Notice**) to the Lessor and the Delegate providing:

- (a) the date of the occurrence of the Partial Loss Event (the **Partial Loss Event Date**); and
- (b) details together with proper evidence of the occurrence of the Partial Loss Event and the deprivation of benefit from the Lease Assets as a result thereof, including, without limitation, the certificate obtained from a recognised industry expert certifying the occurrence of such Partial Loss Event.

By no later than the 31st day after the Partial Loss Event Date, the Lessee may request a proportionate reduction in Rental by way of reimbursement of the Rental applicable to the period from and including the Partial Loss Event Date to but excluding the earlier of: (a) the relevant Replacement Date; and (b) the 61st day after the Partial Loss Event Date, to take into account the loss and/or impairment suffered by the Lessee in relation to the impaired assets (the **Rental Reimbursement Amount**), provided that the Partial Loss Event relating to such Impaired Assets has not arisen as a result of the Lessee's negligence or misconduct (such request, being a **Rental Reimbursement Request**). If a Rental Reimbursement Request is made in accordance with this paragraph, the Lessor shall procure the payment of the Rental Reimbursement Amount by the Service Agent (on its behalf) to the Lessee from only:

- (a) the proceeds of any insurances paid in accordance with the terms of the Service Agency Agreement and standing to the credit of the Collection Account; and/or
- (b) (to the extent the proceeds of such insurances (if any) are insufficient) any Loss Shortfall Amount paid in accordance with the terms of the Service Agency Agreement and as described below,

on the 61st day after the Partial Loss Event Date. For the avoidance of doubt, if the Lessee does not make a Rental Reimbursement Request on or prior to the 31st day after the Partial Loss Event Date, or it expressly waives such right, it shall be not be entitled to exercise such right thereafter. Furthermore, for the avoidance of doubt if, following the occurrence of a Partial Loss Event, the Lease is not terminated in accordance with the Lease Agreement, and whether or not a Rental Reimbursement Request is made, the terms of the Supplemental Lease Agreement and the Lease, including the amount of Rental payable by the Lessee, shall continue on the same terms which applied prior to the occurrence of the Partial Loss Event.

The Lessee will undertake in the Lease Agreement, in relation to each Series, that it shall maintain actual or constructive possession, custody or control of all of the Lease Assets from the date of the Lease Agreement until the satisfaction in full of all of its obligations (acting in any capacity) under the Transaction Documents to which it is a party.

The Lessee will agree in the Lease Agreement to be responsible, at its own cost and expense, for the performance of all ordinary maintenance and repair required for any Lease Asset. The Lessor shall, at its own cost and expense, be responsible for the performance of all major maintenance and structural repair and insuring the Lease Assets in accordance with, and subject to, the terms of the Service Agency Agreement. The Lessee will acknowledge in the Lease Agreement that the Lessor may procure that the Service Agent, in accordance with the terms and conditions set out in the Service Agency Agreement, shall perform, or shall procure the performance of, the major maintenance and structural repair and the insurance of the Lease Assets, on behalf of the Lessor.

The Lease Agreement will provide that the Lessee shall pay:

- (a) each Rental (less any initial supplementary rental supplementary rental and/or additional supplementary rental) by no later than the Payment Business Day immediately preceding the relevant rental payment date (corresponding to the relevant Periodic Distribution Date);
- (b) the initial supplementary rental (corresponding to the relevant All Expenses Reserve Amount payable by the Lessor to the Service Agent pursuant to the Service Agency Agreement) on the Issue Date of the first Tranche of Certificates relating to the relevant Series;
- (c) any supplementary rental (corresponding to the relevant service charge amount in replenishment of the All Expenses Reserve Amount payable by the Lessor to the Service Agent pursuant to the Service Agency Agreement) on the first business day of the rental period commencing immediately after the services invoice date; and
- (d) any additional supplementary rental (corresponding to the relevant additional service agency expenses payable by the Lessor to the Service Agent pursuant to the Service Agency Agreement) on the first business day of the rental period commencing immediately after the Additional Service Agency Expense Request Date,

in each case, by crediting such amounts to the Collection Account relating to the relevant Series and without any prior notice or demand.

The Lessee will agree in the Lease Agreement that all payments by it under the Lease Agreement must be made in full in the Specified Currency and without set-off or counterclaim of any kind and without any withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, unless such withholding or deduction is required by law. In that event, the Lease Agreement provides for the payment by the Lessee of all additional amounts as will result in the receipt by the Lessor of the net amounts as would have been receivable by it if no such withholding or deduction had been made and, accordingly, the Lessee will undertake to pay to the Lessor or such other persons as the Lessor may direct such additional amounts forthwith upon demand and in the manner and the Specified Currency prescribed under the Lease Agreement.

The Lessee will covenant and undertake in the Lease Agreement that its payment obligations under the Lease Agreement are direct, unconditional and (subject to Condition 5) unsecured obligations of the Lessee and shall at all times rank *pari passu* with all other present and future unsecured and unsubordinated External Indebtedness of the Lessee provided, further, that the Lessee shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due under the Lease Agreement and *vice versa*.

For these purposes, **Rental** means:

- (a) for the first rental period, an amount equal to the aggregate of:
 - (i) the product of:
 - (A) the rental rate (corresponding to the relevant Profit Rate) for such rental period;
 - (B) the aggregate face amount of the Certificates then outstanding; and
 - (C) (only if the Rental is to be calculated in respect of a period of less than a full rental period) the Day Count Fraction; plus
 - (ii) (in the case of the first day of such rental period coinciding with the Issue Date of the first Tranche of Certificates only) the initial supplementary rental; and
- (b) for each rental period (other than the first rental period), an amount equal to the aggregate of:
 - (i) the product of:
 - (A) the rental rate (corresponding to the relevant Profit Rate) for such rental period;
 - (B) the aggregate face amount of the Certificates then outstanding; and
 - (C) (only if the Rental is to be calculated in respect of a period of less than a full rental period) the Day Count Fraction; plus
 - (ii) the supplementary rental (if any); plus
 - (iii) the additional supplementary rental (if any).

Service Agency Agreement

The Service Agency Agreement will be entered into on 18 January 2022 between the Trustee (in its capacity as Lessor) and the Obligor (in its capacity as Service Agent) and will be governed by English law.

Pursuant to the Service Agency Agreement, the Service Agent will agree to undertake on behalf of the Lessor the services relating to the Lease Assets in respect of major maintenance and structural repair, effecting all appropriate insurances in respect of such Lease Assets and appointment of the Shari'a Adviser.

Pursuant to the Service Agency Agreement, the Service Agent will undertake to the Lessor that the Service Agent shall, wherever applicable, carry out all major maintenance and structural repair in respect of the Lease Assets on behalf of the Lessor and in so doing the Service Agent shall:

- (a) ensure that accurate and current records are kept of all major maintenance and structural repair activities;
- (b) conduct regular and proper inspection of the Lease Assets and ensure that major maintenance and structural repair is carried out with the proper quality of materials and workmanship; and
- (c) ensure that major maintenance and structural repair is carried out by qualified persons and in accordance with all applicable regulations and law,

in each case, in accordance with good maintenance practice expected from a prudent person carrying on business and operations similar to that of the Service Agent on an arm's length basis and in order to fully maintain the Value of the Lease Assets.

The Service Agent will also undertake to the Lessor that in relation to the Lease Assets applicable to each Series:

- (a) subject always to paragraph (c) below, the Service Agent will (on behalf of the Lessor):
 - (i) ensure that such Lease Assets, so long as any Certificates of the relevant Series are outstanding, are at all times properly insured to the extent consistent with general industry practice by prudent owners of similar assets, and accordingly, shall effect such insurances through brokers and with such reputable insurance companies in good financial standing, in respect of such Lease Assets including against a Loss Event. The Service Agent undertakes to ensure that the insured amount relating to a Loss Event will, at all times, be at least equal to the Full Reinstatement Value;
 - (ii) promptly make a claim in respect of each loss relating to such Lease Assets in accordance with the terms of the insurances; and
 - (iii) ensure that in the event of a Loss Event occurring, all the insurance proceeds against a Loss Event are in an amount equal to the Full Reinstatement Value and are credited in the Specified Currency to the Collection Account by no later than the 60th day after the occurrence of the Loss Event and that the relevant insurer(s) will be directed accordingly;
- (b) if, by no later than the 59th day after the occurrence of a Partial Loss Event and provided that a Partial Loss Termination Notice has not been delivered by the Lessee or the Lessee has expressly waived the right to deliver such Partial Loss Termination Notice, in each case pursuant to the Lease Agreement, the Service Agent receives notice from the Government of the availability of replacement Eligible Assets (i) that are free from all claims, encumbrances and any other rights of third parties (including any rights, interest and entitlements of third parties granted or arising out of, or pursuant to, construction or financing contracts), (ii) that are capable of being leased by the Lessee pursuant to the terms of the Lease Agreement, and (iii) the aggregate Value as at the date of replacement (the **Replacement Date**) of which is not less than the aggregate Value of the replaced Lease Assets, the Service Agent shall notify the Trustee of the same. Immediately following such notice, the Trustee shall, pursuant to and on the terms of a separate purchase agreement (the **Replacement Lease Assets Purchase Agreement**) substantially in the form, *mutatis mutandis*, of a Supplemental Purchase Agreement, purchase from the National Highway Authority all of its rights, title, interest, benefits and entitlements in to and under the replacement Lease Assets at a purchase price to be paid using the insurance proceeds (or the assignment of the rights to such proceeds) to or to the order of the National Highway Authority. Such replacement pursuant to the relevant Replacement Lease Assets Purchase Agreement shall only be effective upon the fulfilment of the applicable conditions set out in of the Master Purchase Agreement save that references therein to the "relevant Issue Date" shall be deemed to refer to the "Replacement Date";
- (c) wherever the Service Agent procures insurances in accordance with the terms of the Service Agency Agreement (including the renewal of any insurances in existence on the lease commencement date falling on or prior to the Issue Date of the first Tranche of such Series), it shall (i) use its reasonable endeavours to obtain such insurances on a *takaful* basis if such *takaful* insurance is available on commercially viable terms; or (ii) if no such *takaful* insurance is available on commercially viable terms, procure conventional insurance, in each case, provided that such Insurances are with a leading insurance provider in Pakistan and the process of

obtaining such Insurances complies with all regulatory, public tender, procurement processes (including any applicable selection criteria) and other requirements of the Service Agent in contracting such Insurances; and

- (d) if at any time and for any reason, the Service Agent is not in compliance with its insurance obligations set out in paragraph (a)(i) above, it shall immediately deliver written notice to the Trustee and the Delegate of such non-compliance and the details thereof.

Any breach of paragraphs (a) to (d) above will not constitute a Government Event.

The delivery of the notice referred to in paragraph (d) above to the Trustee and/or the Delegate in relation to non-compliance with its insurance obligations set out in paragraph (a)(i) above shall constitute a Government Event.

If, following the occurrence of a Loss Event;

- (a) the notice referred to in paragraph (d) above has not been delivered by the Service Agent to the Trustee and the Delegate prior to the occurrence of such Loss Event;
- (b) in the case of a Partial Loss Event only, the Lease Assets have not been replaced in accordance with paragraph (b) above; and
- (c) the amount (if any) credited to the Collection Account pursuant to paragraph (a)(iii) above is less than the Full Reinstatement Value (the difference between the Full Reinstatement Value and the amount credited to the Collection Account being the **Loss Shortfall Amount**),

the Service Agent undertakes to (i) transfer the amounts (if any) credited to the Collection Account in accordance with paragraph (a)(iii) above; and (ii) pay directly (in same day, freely transferable, cleared funds) the Loss Shortfall Amount, in each case to the Transaction Account by no later than close of business in London on the 61st day following the occurrence of a Loss Event. Subject to transferring such amounts (if any) credited to the Collection Account in accordance with paragraph (a)(iii) and/or paying such Loss Shortfall Amount in accordance with this paragraph, there will be no further claim against the Service Agent for failing to comply with its insurance obligations pursuant to the terms of the Service Agency Agreement.

In relation to each Series, the Service Agent shall also ensure at all times from the Issue Date of the first Tranche of such Series the appointment of a Shari'a Adviser to monitor the compliance by the Government (acting in any capacity) with the terms of the Transaction Documents to which it is a party.

In addition, the Service Agent will also be responsible for maintaining a Collection Account in relation to each Series. The Service Agency Agreement will provide that, on the Payment Business Day immediately preceding each Periodic Distribution Date, amounts standing to the credit of the Collection Account relating to each Series (other than any amounts of initial supplementary rental and/or supplementary rental) will be applied by the Service Agent on behalf of the Trustee, by paying an amount equal to the Required Amount directly into the Transaction Account. The Service Agent shall be entitled pursuant to the Service Agency Agreement to deduct amounts standing to the credit of the Collection Account (other than initial supplementary rental, supplemental rental and/or any insurance proceeds referred to above) relating to each Series at any time during the lease term and use such amounts for its own account, provided that it shall immediately re-credit all such amounts to the Collection Account:

- (a) on the Payment Business Day immediately preceding a Periodic Distribution Date, if so required to fund a shortfall between the (i) the amount standing to the credit of the Transaction Account (after the application of amounts standing to the credit of the Collection Account

pursuant to the Service Agency Agreement); and (ii) the Required Amount payable on such Periodic Distribution Date; or

- (b) upon the occurrence of a Dissolution Event, a Potential Dissolution Event or a Loss Event.

In consideration of the Service Agent acting as agent of the Lessor, the Service Agent shall receive a fee of U.S.\$100 in relation to each lease, payable on the date of the relevant Supplemental Lease Agreement (the receipt and adequacy of which the Service Agent will acknowledge in the Service Agency Agreement). In relation to each Series, as an advance payment to the Service Agent for service charge amounts to be paid or incurred by it in respect of the services to be performed in relation to the Lease Assets, the Lessor shall procure that an amount equal to a pre-agreed reserve amount (the **All Expenses Reserve Amount**) is credited to the Collection Account on the Issue Date of the first Tranche of such Series and is replenished in accordance with the Service Agency Agreement and as described below.

Notwithstanding any other provision in the Service Agency Agreement, the Service Agent shall not incur or pay any liability in any rental period in respect of the services to be performed in relation to the Lease Assets which, individually or in the aggregate, would exceed the All Expenses Reserve Amount (the amount by which such liability exceeds the All Expenses Reserve Amount, being the **additional service agency expenses**) unless:

- (a) a notice requesting such incurrence or payment of additional service agency expenses has been submitted by the Service Agent to the Lessor in accordance with the paragraph below; and
- (b) following such request, the Lessee has agreed to pay to the Lessor an amount of additional supplementary rental equal to such additional service agency expenses on the first business day of the rental period commencing immediately after the Additional Service Agency Expense Request Date in accordance with the relevant Supplemental Lease Agreement.

If, during any rental period, the Service Agent incurs or pays such liability without first satisfying the conditions in (a) and (b) above, then it shall be deemed to have unconditionally agreed to satisfy, donate and pay all such liabilities from its own account and the Lessor shall have no responsibility whatsoever in connection with such liability.

Pursuant to the Service Agency Agreement, the Service Agent will submit to the Lessor or its agent the invoice or receipt for (or other evidence of payment or incurrence of) each liability comprising the service charge amount, as soon as practicable after the payment or incurrence thereof and, in any case, an invoice or receipt consolidating (or other evidence of payment or incurrence of) all liabilities comprising the service charge amount paid or incurred during a rental period on the fifth business day preceding the immediately following rental payment date (the **services invoice date**). In addition, the Service Agent will submit to the Lessor or its agent a notice in writing requesting the Lessor's approval of the Service Agent incurring or paying any proposed liability comprising an additional service agency expense prior to incurring or paying such proposed liability. Subject to the terms of the relevant Lease Agreement and the paragraph above:

- (a) the Lessor will procure that an amount equal to the service charge amount notified to it in accordance with the above paragraph is credited to the Collection Account on the first business day of the rental period commencing immediately after the services invoice date; and
- (b) the Lessor will procure the reimbursement of the Service Agent for each additional service agency expense approved in accordance with the paragraph above by crediting such amount to the Collection Account on the first business day of the rental period commencing immediately after the Additional Service Agency Expense Request Date or, if the relevant lease is terminated prior to such date, on the date of termination of such lease.

For the avoidance of doubt, no replenishment of the Collection Amount in an amount equal to the relevant service charge amount shall be made unless the Service Agent evidences the payment or incurrence of each liability comprising such service charge amount in accordance with the Service Agency Agreement.

The Service Agent will agree in the Service Agency Agreement that all payments by it under the Service Agency Agreement must be made in full in the Specified Currency and without set-off or counterclaim of any kind and without any withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, unless such withholding or deduction is required by law. In that event, the Service Agency Agreement provides for the payment by the Service Agent of all additional amounts as will result in the receipt by the Lessor of the net amounts as would have been receivable by it if no such withholding or deduction had been made and, accordingly, the Service Agent will undertake to pay to the Lessor or such other persons as the Lessor may direct such additional amounts forthwith upon demand and in the manner and the Specified Currency prescribed under the Service Agency Agreement.

The Service Agent will covenant and undertake in the Service Agency Agreement that its payment obligations under the Service Agency Agreement are direct, unconditional and (subject to Condition 5) unsecured obligations of the Service Agent and shall at all times rank *pari passu* with all other present and future unsecured and unsubordinated External Indebtedness of the Service Agent, provided, further, that the Service Agent shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due under the Service Agency Agreement and *vice versa*.

For these purposes:

Full Reinstatement Value means, in relation to each Series, an amount in the Specified Currency equal to the aggregate of:

- (a) in the case of a Total Loss Event:
 - (i) the aggregate face amount of the Certificates then outstanding; plus
 - (ii) an amount equal to all accrued and unpaid Periodic Distribution Amounts (if any) relating to the Certificates; plus
 - (iii) an amount equal to the Periodic Distribution Amounts relating to such Certificates, which would have accrued (had a Total Loss Event not occurred) during the period beginning on the date on which the Total Loss Event occurred and ending on, but excluding, the 61st day after the occurrence of the Total Loss Event; plus
 - (iv) to the extent not previously satisfied in accordance with the Service Agency Agreement, an amount equal to any outstanding additional service agency expenses in respect of which the Lessee has agreed to make an appropriate corresponding additional supplementary rental payment but such additional supplementary rental payment has not been made in accordance with the Lease Agreement; plus
 - (v) without double counting, an amount representing any amounts payable by the Trustee (in any capacity) under the Transaction Documents to which it is a party (including but not limited to costs and expenses due but unpaid to the Delegate pursuant to Condition 6(b)(i)); plus

- (vi) without double counting, any other amounts payable on redemption of the Certificates as specified in the applicable Pricing Supplement; and
- (b) in the case of a Partial Loss Event:
 - (i) the aggregate Value of the impaired Lease Assets; plus
 - (ii) an amount equal to any Rental Reimbursement Amount payable to the Lessee in accordance with the Lease Agreement; and

Value means, in relation to each Eligible Asset applicable to a Series, on any date, the amount in the Specified Currency determined by the Government corresponding to the relevant valuation obtained by the Government of such Eligible Asset on the date it was purchased or otherwise acquired by or on behalf of the Trustee as set out in the relevant Supplemental Purchase Agreement and/or Sale Deed, as the case may be.

Purchase Undertaking

The Purchase Undertaking will be executed as a deed on 18 January 2022 by the Government (in its capacity as Obligor) in favour of the Trustee and the Delegate and will be governed by English law.

Pursuant to the Purchase Undertaking, in relation to each Series, provided that no Total Loss Event has occurred and is continuing, the Obligor will irrevocably grant to the Trustee and the Delegate (for and on behalf of the Certificateholders) the following rights:

- (a) provided that a Dissolution Event has occurred and is continuing and the Delegate has received a Dissolution Notice in accordance with the Conditions, to require the Obligor to purchase on the Dissolution Event Redemption Date all of the Trustee's rights, title, interest, benefits and entitlements in, to and under the Lease Assets at the Exercise Price specified in the relevant exercise notice; and
- (b) to require the Obligor on the Scheduled Dissolution Date to purchase all of the Trustee's rights, title, interest, benefits and entitlements in, to and under the Lease Assets at the Exercise Price specified in the relevant exercise notice,

in each case, on an "as is" basis but free from any encumbrance (without any warranty express or implied as to acquire, fitness for purpose, suitability for use or otherwise and if any warranty is implied by law, it shall be excluded to the fullest extent permitted by law) and otherwise on the terms and subject to the conditions of the Purchase Undertaking.

The Purchase Undertaking will provide that, pursuant to the exercise of any such rights, the Obligor will undertake to immediately purchase all of the Trustee's rights, title, interest, benefits and entitlements in, to and under the Lease Assets at the Exercise Price which shall be paid into the Transaction Account (in the Specified Currency by wire transfer for same day value):

- (a) (in the case of paragraph (a) above) on the Dissolution Event Redemption Date; and
- (b) (in the case of paragraph (b) above) on the Payment Business Day immediately preceding the Scheduled Dissolution Date.

The Obligor will covenant and undertake in the Purchase Undertaking that:

- (a) if, at the time of delivery of the exercise notice in accordance with the provisions of the Purchase Undertaking, the Obligor (acting in any capacity) is in actual or constructive possession, custody or control of all or any part of the relevant Lease Assets; and
- (b) if, following delivery of the exercise notice in accordance with the provision of the Purchase Undertaking, the relevant Exercise Price is not paid in accordance with the provisions of the Purchase Undertaking for any reason whatsoever,

the Obligor shall (as an independent, severable and separately enforceable obligation) fully indemnify the Trustee for the purpose of redemption in full of the Certificates then outstanding and, accordingly, the amount payable under any such indemnity claim will equal the Exercise Price.

The Obligor will agree in the Purchase Undertaking that all payments by it under the Purchase Undertaking must be made in full in the Specified Currency and without set-off or counterclaim of any kind and without any withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, unless such withholding or deduction is required by law. In that event, the Purchase Undertaking provides for the payment by the Obligor of all additional amounts as will result in the receipt by the Trustee of the net amounts as would have been receivable by it if no such withholding or deduction had been made and, accordingly, the Obligor will undertake to pay to the Trustee or such other persons as the Trustee may direct such additional amounts forthwith upon demand and in the manner and the Specified Currency prescribed under the Purchase Undertaking.

The Obligor will covenant and undertake in the Purchase Undertaking that its payment obligations under the Purchase Undertaking are direct, unconditional and (subject to Condition 5) unsecured obligations of the Obligor and shall at all times rank *pari passu* with all other present and future unsecured and unsubordinated External Indebtedness of the Obligor, provided, further, that the Obligor shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due under the Purchase Undertaking and *vice versa*.

For these purposes, **Exercise Price** means, in relation to each Series, an amount in the Specified Currency equal to the aggregate of:

- (a) the aggregate face amount of the Certificates then outstanding on the relevant Dissolution Date; plus
- (b) an amount equal to all accrued and unpaid Periodic Distribution Amounts (if any) relating to the Certificates; plus
- (c) to the extent not previously satisfied in accordance with the Service Agency Agreement, an amount equal to any outstanding additional service agency expenses in respect of which the Lessee has agreed to make an appropriate corresponding additional supplementary rental payment but such additional supplementary rental payment has not been made in accordance with the Lease Agreement; plus
- (d) without double counting, an amount representing any amounts payable by the Trustee (in any capacity) under the Transaction Documents to which it is a party (including but not limited to costs and expenses due but unpaid to the Delegate pursuant to Condition 6(b)(i)); plus
- (e) without double counting, any other amounts payable on redemption of the Certificates as specified in the applicable Pricing Supplement; less

- (f) in the case of a Dissolution Event arising as a result of a Partial Loss Dissolution Event only, any insurance proceeds and/or Loss Shortfall Amount paid in respect of a Partial Loss Event in accordance with the terms of the Service Agency Agreement and standing to the credit of the Transaction Account less any amount of Rental Reimbursement Amount.

Sale and Substitution Undertaking

The Sale and Substitution Undertaking will be executed as a deed on 18 January 2022 by the Trustee in favour of the Government and will be governed by English law.

In relation to each Series, provided that no Total Loss Event has occurred and is continuing, the Trustee will irrevocably grant to the Obligor the following rights:

- (a) provided that the Obligor Dissolution Right is specified as applicable in each applicable Pricing Supplement, to require the Trustee to sell, transfer and convey to the Government (or the National Highway Authority as its nominee) on the Optional Dissolution Date all of the Trustee's rights, title, interest, benefits and entitlements in, to and under the Lease Assets at the Exercise Price specified in the relevant exercise notice, provided that: (i) no exercise notice has otherwise been delivered under the Sale and Substitution Undertaking in respect of the Lease Assets where such exercise notice remains outstanding and the related redemption or cancellation of Certificates referred to therein has not occurred in accordance with the Conditions; (ii) no exercise notice has been delivered under the Purchase Undertaking in respect of the Lease Assets where such exercise notice remains outstanding and the related redemption of Certificates referred to therein has not occurred in accordance with the Conditions; and (iii) no Dissolution Event or Potential Dissolution Event has occurred and is continuing in respect of the relevant Series;
- (b) to require the Trustee to sell, transfer and convey to the Government (or the National Highway Authority as its nominee) on any substitution date all of the Trustee's rights, title, interests, benefits and entitlements in, to and under the substituted Lease Assets against the sale, transfer and conveyance to the Trustee of all of the National Highway Authority's rights, title, interest, benefits and entitlements in, to and under, the new Eligible Assets, provided that: (i) the new Eligible Assets are of a Value which is not less than the Value of the substituted assets; (ii) no exercise notice has otherwise been delivered under the Sale and Substitution Undertaking in respect of the substituted Lease Assets where such exercise notice remains outstanding and the related redemption or cancellation of Certificates referred to therein has not occurred in accordance with the Conditions; (iii) no exercise notice has been delivered under the Purchase Undertaking in respect of the substituted assets where such exercise notice remains outstanding and the related redemption of Certificates referred to therein has not occurred in accordance with the Conditions; and (iv) no Dissolution Event or Potential Dissolution Event has occurred and is continuing; and
- (c) following delivery of the relevant Certificates to the Registrar for cancellation pursuant to Condition 9(f), to require the Trustee to sell, transfer and convey to the Government (or the National Highway Authority as its nominee) on the cancellation date all of the Trustee's rights, title, interest, benefits and entitlements in, to and under, the cancellation Lease Assets, provided that: (i) the cancellation Lease Assets are of a Value which is not greater than the aggregate face amount of the cancelled Certificates then outstanding; (ii) no exercise notice has otherwise been delivered under the Sale and Substitution Undertaking in respect of the cancellation Lease Assets where such exercise notice remains outstanding and the related redemption or cancellation of Certificates referred to therein has not occurred in accordance with the Conditions; (iii) no exercise notice has been delivered under the Purchase Undertaking in respect of the cancellation Lease Assets where such exercise notice remains outstanding and the related redemption of Certificates referred to therein has not occurred in accordance with

the Conditions; and (iv) no Dissolution Event or Potential Dissolution Event has occurred and is continuing in respect of the relevant Series,

in each case, on an "as is" basis but free from any encumbrance (without any warranty express or implied as to condition, fitness for purpose, suitability for use or otherwise and if any warranty is implied by law, it shall be excluded to the fullest extent permitted by law) and otherwise on the terms and subject to the conditions of the Sale and Substitution Undertaking.

Trust Deed

The Master Trust Deed will be entered into on 18 January 2022 between the Trustee, the Government and the Delegate and will be governed by English law. A Supplemental Trust Deed between the same parties shall be entered into on or prior to the Issue Date of each Tranche and shall also be governed by English law.

Upon issue of a Series of Certificates, the Master Trust Deed, as supplemented by each relevant Supplemental Trust Deed, shall together constitute the Trust declared by the Trustee in relation to such Series (the Master Trust Deed, as supplemented by each relevant Supplemental Trust Deed for each Series, being the **Trust Deed**).

The Trust Assets in respect of each Series shall comprise:

- (a) the cash proceeds of the issue of Certificates, pending application thereof in accordance with the terms of the Transaction Documents;
- (b) all of the Trustee's rights, title, interest, benefits and entitlements, present and future, in, to and under the Lease Assets;
- (c) all of the Trustee's rights, title, interest, benefits and entitlements, present and future, in, to and under the Transaction Documents (excluding the covenant given to the Trustee pursuant to clause 13.1 of the Master Trust Deed);
- (d) all monies standing to the credit of the Transaction Account from time to time; and
- (e) all proceeds of the foregoing.

Pursuant to the relevant Trust Deed, the Trustee will, in relation to each Series of Certificates, amongst other things, hold the relevant Trust Assets on trust absolutely for the holders of the Certificates as beneficiaries *pro rata* according to the face amount of Certificates of that Series held by each Certificateholder and 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 relevant Trust Deed. Pursuant to the Master Trust Deed, the Trustee will irrevocably and unconditionally appoint the Delegate to be its delegate and attorney and in its name, on its behalf and as its act and deed to:

- (a) execute, deliver and perfect all documents; and
- (b) exercise all of the present and future powers (including the power to sub-delegate), rights, authorities (including, but not limited to, the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the Trust Deed and the Certificates,

that the Delegate may consider to be necessary or desirable in order to, upon the occurrence of a Dissolution Event or a Potential Dissolution Event, and subject to its being indemnified and/or secured and/or pre-funded to its satisfaction, (i) exercise all of the rights, powers, authorities and discretions of

the Trustee under the Purchase Undertaking and any of the other Transaction Documents and (ii) make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the Conditions and the Trust Deed (together the **Delegation of the Relevant Powers**), provided that (i) no obligations, duties, liabilities or covenants of the Trustee pursuant to the Trust Deed or any other Transaction Document shall be imposed on the Delegate by virtue of the Delegation; (ii) in no circumstances will such Delegation of the Relevant Powers result in the Delegate holding on trust or managing the Trust Assets; and (iii) such Delegation of the Relevant Powers shall not include any duty, power, trust, authority or discretion to dissolve the trusts constituted by the Trust Deed following the occurrence of a Dissolution Event or Potential Dissolution Event or to determine the remuneration of the Delegate. The Trustee will undertake in the Master Trust Deed to ratify and confirm all things done and all documents executed by the Delegate in the exercise of all or any of its powers pursuant to the Delegation.

The Delegation is to be made by the Trustee to the Delegate for the benefit of the Delegate and the Certificateholders, subject to the terms of the Conditions and the Trust Deed. Each of the Government and the Trustee will confirm in the Master Trust Deed that the Delegate may consult with or request and rely on (without liability to any person for so doing) the advice of any lawyer, valuer, banker, broker, accountant or other expert in exercising the rights, powers or actions delegated to it under the Master Trust Deed.

In addition to the Delegation of the Relevant Powers, certain powers, rights, authorities and discretions under the Master Trust Deed will be vested solely in the Delegate, including, amongst other things, the power to call and conduct meetings at the request of Certificateholders, to determine the occurrence of a Dissolution Event or a Potential Dissolution Event, to waive or authorise a breach of an obligation or determine that a Dissolution Event or Potential Dissolution Event shall not be treated as such, and the power to consent to certain types of amendments to any Transaction Document, in each case as more particularly described in the Master Trust Deed.

The Government will covenant and undertake in the Master Trust Deed as follows:

- (a) to comply with all provisions of the Conditions which are expressed to be applicable to it including, without limitation, the negative pledge provisions described in Condition 5;
- (b) to comply with the terms of the Transaction Documents;
- (c) to maintain actual or constructive possession, custody or control of all of the Lease Assets; and
- (d) that it shall forthwith notify the Delegate and the Trustee in writing of any Dissolution Event (and the steps, if any, being taken to remedy it) and/or any Potential Dissolution Event and/or any Loss Event, in each case promptly upon becoming aware of its occurrence.

The Government will acknowledge in the Master Trust Deed that the Government Events applicable to it are set out in full in the Conditions, that it is fully aware of and understands the terms thereof and that the occurrence thereof shall constitute a Dissolution Event for the purposes of the Conditions.

The Government will also covenant and undertake in the Master Trust Deed that, in relation to any Series:

- (a) if, at the time of delivery of the exercise notice in accordance with the provisions of the Purchase Undertaking, the Government (acting in any capacity) is in actual or constructive possession, custody or control of all or any part of the relevant Lease Assets; and

- (b) if, following delivery of the exercise notice in accordance with the provision of the Purchase Undertaking, the relevant Exercise Price is not paid in accordance with the provisions of the Purchase Undertaking for any reason whatsoever,

the Obligor shall (as an independent, severable and separately enforceable obligation) fully indemnify the Trustee for the purpose of redemption in full of the Certificates then outstanding and, accordingly, the amount payable under any such indemnity claim will equal the Exercise Price.

In addition, in the event that the Trustee fails to comply with any obligation to pay additional amounts pursuant to Condition 11, the Government will covenant and undertake in the Master Trust Deed that it will unconditionally and irrevocably (irrespective of the payment of any fee), as a continuing obligation, pay to or to the order of the Delegate (for the benefit of the Certificateholders) such net amounts as are necessary so that the amount receivable by the Delegate (after any withholding or deduction for or on account of tax) equals any and all additional amounts required to be paid by it in respect of the Certificates pursuant to Condition 11.

If and to the extent the Trustee has exercised its rights under Condition 20 to issue additional Certificates in respect of a Series, on the date of issue of such additional Certificates, the Trustee will execute a Declaration of Commingling of Assets for and on behalf of the holders of the existing Certificates and the holders of such additional Certificates so issued, declaring that the Additional Assets (in respect of the issuance of the additional Certificates) and the Lease Assets as in existence immediately prior to the creation and issue of such additional Certificates are commingled and shall collectively comprise part of the Trust Assets for the benefit of the holders of the existing Certificates and the holders of such additional Certificates as tenants in common *pro rata* according to the face amount of Certificates held by each Certificateholder, in accordance with the Master Trust Deed.

Agency Agreement

The Agency Agreement will be entered into on 18 January 2022 in relation to the Certificates between, amongst others, the Trustee, the Government, the Delegate, the Principal Paying Agent and the Registrar. The Agency Agreement will govern the arrangements between the Trustee and the agents named therein for the issuance of Certificates and the making of payments in respect thereof. The Agency Agreement will be governed by English law.

Shari'a Compliance

Each Transaction Document to which it is a party provides that each of The Pakistan Global Sukuk Programme Company Limited and The President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan agrees that it has accepted the Shari'a compliant nature of the Transaction Documents to which it is a party and, to the extent permitted by law, further agrees that:

- (a) it shall not claim that any of its obligations under the Transaction Documents to which it is a party (or any provision thereof) is *ultra vires* or not compliant with the principles of Shari'a;
- (b) it shall not take any steps or bring any proceedings in any forum to challenge the Shari'a compliance of the Transaction Documents to which it is a party; and
- (c) none of its obligations under the Transaction Documents to which it is a party shall in any way be diminished, abrogated, impaired, invalidated or otherwise adversely affected by any finding, declaration, pronouncement, order or judgment of any court, tribunal or other body that the Transaction Documents to which it is a party are not compliant with the principles of Shari'a.

BOOK-ENTRY CLEARANCE SYSTEM

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the **Clearing Systems**) currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Trustee, 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, ownership interests in the Certificates held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such ownership interests. *The information in this section concerning the Clearing Systems has been obtained from sources that the Trustee and the Government believe to be reliable, but neither the Trustee nor the Government, nor any Agent or Dealer takes any responsibility for the accuracy thereof. The Trustee and the Government confirm that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.*

Book-entry Systems

DTC

DTC has advised the Trustee that it is a limited purpose trust company organised under the New York Banking Law, a member of the Federal Reserve System, a "banking organization" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants (**Direct Participants**) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (**DTCC**). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (**Indirect Participants** and, together with Direct Participants, **Participants**). More information about DTC can be found at www.dtcc.com and www.dtc.org, but such information is not incorporated by reference in and does not form part of this Offering Circular.

Under the rules, regulations and procedures creating and affecting DTC and its operations (the **DTC Rules**), DTC makes book-entry transfers of Certificates among Direct Participants on whose behalf it acts with respect to Certificates accepted into DTC's book-entry settlement system (**DTC Certificates**) as described below and receives and transmits distributions of Periodic Distribution Amounts and Dissolution Distribution Amounts on DTC Certificates. The DTC Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Certificates (**Owners**) have accounts with respect to the DTC Certificates similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Certificates through Direct Participants or Indirect Participants will not possess Registered Certificates, the DTC Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Certificates.

Purchases of DTC Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Certificates on DTC's records. The ownership interest of each actual purchaser of each DTC Certificate (**Beneficial Owner**) is in turn to be recorded on the Direct Participant's and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Certificates are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Certificates, except in the event that use of the book-entry system for the DTC Certificates is discontinued.

To facilitate subsequent transfers, all DTC Certificates deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorised representative of DTC. The deposit of DTC Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Certificates are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the DTC Certificates within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to DTC Certificates unless authorised by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Periodic Distribution Amounts and Dissolution Distribution Amounts on the DTC Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorised representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee or the relevant agent (or such other nominee as may be requested by an authorised representative of DTC), on the relevant payment date in accordance with their respective holdings shown in DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not of DTC or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of Periodic Distribution Amounts and Dissolution Distribution Amounts to DTC is the responsibility of the Trustee, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct Participants and Indirect Participants.

Under certain circumstances, including if there is a Dissolution Event under the Certificates, DTC will exchange the DTC Certificates for definitive Certificates, which it will distribute to its Participants in

accordance with their proportionate entitlements and which will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

A Beneficial Owner shall give notice to elect to have its DTC Certificates purchased or tendered, through its Participant, to the relevant agent, and shall effect delivery of such DTC Certificates by causing the Direct Participant to transfer the Participant's interest in the DTC Certificates, on DTC's records, to the relevant agent. The requirement for physical delivery of DTC Certificates in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the DTC Certificates are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered DTC Certificates to the relevant agent's DTC account.

DTC may discontinue providing its services as depository with respect to the DTC Certificates at any time by giving reasonable notice to the Trustee or the relevant agent. Under such circumstances, in the event that a successor depository is not obtained, DTC Certificates are required to be printed and delivered.

The Trustee may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, DTC Certificate certificates will be printed and delivered to DTC.

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Certificates to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Certificates, will be required to withdraw its Registered Certificates from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective accountholders. 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 world-wide 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 accountholder of either system. Investors may hold their interests in Global Certificates directly through Euroclear or Clearstream, Luxembourg if they are accountholders or indirectly through organisation which are accountholders therein.

Book-entry Ownership of and Payments in respect of DTC Certificates

The Trustee may apply to DTC in order to have any Tranche of Certificates represented by a Global Certificate accepted in its book-entry settlement system. Upon the issue of any such Global Certificate, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual ownership interests represented by such Global Certificate to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of interests in such a Global Certificate will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Certificate, the respective depositories of Euroclear and Clearstream, Luxembourg. Ownership of interests in a Global Certificate accepted by DTC will be shown on, and the transfer of such ownership will be effected only through,

records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of any amount in respect of a Global Certificate accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Certificate. In the case of any payment in a currency other than U.S. Dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the holders of interests in the Global Certificate in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Trustee expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Trustee also expects that payments by Participants to beneficial owners of Certificates will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar, the Delegate, the Trustee or the Government. Payment of Periodic Distribution Amounts and Dissolution Distribution Amounts on Certificates to DTC is the responsibility of the Trustee.

Transfers of Certificates Represented by Global Certificates

Transfers of any interests in Certificates represented by a Global Certificate within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant Clearing System clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Certificates represented by a Global Certificate to such persons may depend upon the ability to exchange such Certificates for Certificates in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Certificates represented by a Global Certificate accepted by DTC to pledge such Certificates to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Certificates may depend upon the ability to exchange such Certificates for Certificates in definitive form. The ability of any holder of Certificates represented by a Global Certificate accepted by DTC to resell, pledge or otherwise transfer such Certificates may be impaired if the proposed transferee of such Certificates is not eligible to hold such Certificates through a Direct Participant or Indirect Participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Certificates described under "*Subscription and Sale and Transfer and Selling Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant Clearing System in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian (the **Custodian**) with whom the relevant Global Certificates have been deposited.

On or after the Issue Date for any Series, transfers of Certificates of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Certificates of such Series 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 Clearstream, Luxembourg or Euroclear 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 Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Global Certificates will be effected through the Registrar, the Principal Paying Agent and the Custodian 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. 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.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of interests in Global Certificates among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Trustee, the Government, the Agents or the Dealers will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations nor will the Trustee, the Government, the Delegate, any Agent or any Dealer have any liability for any aspect of the records relating to or payments made on account of interests in the Certificates represented by Global Certificates or for maintaining, supervising or reviewing any records relating to such interests.

Pre-issue Trades Settlement

It is expected that delivery of Certificates will be made against payment therefore on the relevant issue date, which could be more than two business days following the date of pricing. Under Rule 15c6-1 of the Exchange Act, trades in the United States secondary market generally are required to settle within two business days (T+2), unless the parties to any such trade expressly agree otherwise. Accordingly, if an issue date is more than two business days following the relevant date of pricing, purchasers who wish to trade Certificates in the United States between the date of pricing and the date that is two business days prior to the relevant issue date will be required, by virtue of the fact that such Certificates initially will settle beyond T+2, 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, if an issue date is more than two business days following the relevant date of pricing, purchasers of Certificates who wish to trade Certificates between the date of pricing and the date that is two business days prior to the relevant issue date should consult their own adviser.

TAXATION

The following is a general description of certain tax considerations relating to the Certificates. It does not purport to be a complete analysis of all tax considerations relating to the Certificates, whether in those jurisdictions or elsewhere, nor does it address the considerations that are dependent on individual circumstances. Prospective purchasers of Certificates should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Certificates and receiving payments under the Certificates and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Pakistan Taxation

General

This summary of the principal Pakistani tax consequences of holding 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 Certificates.

In addition, this summary only addresses the tax consequences to non-residents holding 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 profit payments

Clause 75 of Part I of the Second Schedule to the Income Tax Ordinance (2001) exempts from income tax any profit on debt and capital gains derived by an agency of a foreign government or any other non-resident person approved by the Federal Government for the purposes of this clause, from debt and debt instruments approved by the Federal Government.

The issue of Certificates under the Programme has been approved on 25 February 2021 by the Finance Division of the Federal Government for the purposes of Clause 75 of Part I of the Second Schedule of the Income Tax Ordinance (2001).

Withholding tax

Payments by the Trustee under the Certificates shall not be subject to any withholding or deduction for any taxes under the laws of Pakistan.

Stamp Duty on any transfer of Certificates

Under the Stamp Act 1899, any transfer of 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.

U.S. Federal Income Taxation

The following is a summary of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of Certificates by a U.S. Holder (as defined below). This summary deals only with purchasers of Certificates that are U.S. Holders, acquire such Certificates at initial issuance at their issue price (as defined below) and will hold the Certificates as capital assets (generally, property held for investment).

The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Certificates by particular investors. In particular, this summary does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (including, without limitation: (i) financial institutions; (ii) insurance companies; (iii) dealers or traders in stocks, securities, or currencies or notional principal contracts; (iv) regulated investment companies; (v) real estate investment trusts; (vi) tax-exempt organisations; (vii) partnerships, pass-through entities, or persons that hold Certificates through pass-through entities; (viii) investors that hold Certificates as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for U.S. federal income tax purposes; (ix) U.S. Holders that have a functional currency other than the U.S. Dollar; (x) accrual basis taxpayers subject to special rules for the taxable year of inclusion under Section 451(b) of the Code (as defined below); and (xi) U.S. expatriates and former long-term residents of the United States) all of whom may be subject to tax rules that differ significantly from those summarised below. This summary does not address U.S. federal estate, gift or alternative minimum tax considerations, Medicare contribution tax on net investment income considerations, or non-U.S., state or local tax considerations.

As used herein, the term **U.S. Holder** means a beneficial owner of Certificates that is for U.S. federal income tax purposes, (i) a citizen or individual resident of the United States; (ii) a corporation created or organised in or under the laws of the United States or any state thereof; (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source; or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or a trust which has validly elected to be treated as a United States person for U.S. federal income tax purposes.

If a partnership (or any other entity or arrangement treated as fiscally transparent for U.S. federal income tax purposes) holds Certificates, the tax treatment of a partner in such partnership generally will depend upon the status of the partner and the activities of the partnership. Any such partner or partnership should consult their tax advisers as to the U.S. federal income tax consequences to them of the acquisition, ownership and disposition of Certificates.

This summary is based on the tax laws of the United States including the Internal Revenue Code of 1986 (the **Code**), its legislative history, existing and proposed regulations promulgated thereunder, published rulings and court decisions, all as currently in effect and all of which are subject to change at any time, possibly with retroactive effect. No rulings have been or will be sought from the U.S. Internal Revenue Service (the **IRS**) with respect to any of the matters discussed below, and no assurance can be given that the views of the IRS or a court with respect to those matters will not differ from those described below.

INVESTORS SHOULD CONSULT THEIR TAX ADVISERS TO DETERMINE THE TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING AND DISPOSING OF CERTIFICATES, INCLUDING THE APPLICATION TO THEIR PARTICULAR SITUATION OF THE U.S. FEDERAL INCOME TAX CONSIDERATIONS DISCUSSED BELOW.

The Trustee generally intends to treat Certificates issued under the Programme as debt, unless otherwise indicated in the supplemental U.S. federal income tax disclosure provided in an offering circular supplement or otherwise.

U.S. Holders

Overview

The Trustee intends to treat the Trust as a mere agency or security device, which is disregarded for U.S. federal income tax purposes, and to treat the Certificates as debt instruments for U.S. federal income

tax purposes. Under this characterisation, U.S. Holders will be subject to U.S. federal income taxation as if they owned debt instruments. Prospective purchasers of the Certificates should consult their own tax advisors about the consequences in the event the Certificates are not treated as debt obligations of the Trustee for U.S. federal income tax purposes.

Payment of Periodic Distribution Amounts

General

Under the U.S. federal income tax rules applicable to debt instruments, payments of Periodic Distribution Amounts will be treated as payments of interest for U.S. federal income tax purposes. Interest on a Certificate held by a U.S. Holder, including the payment of any additional amounts whether payable in U.S. Dollars or a currency other than U.S. Dollars (**foreign currency** interest on a **Foreign Currency Certificate**), other than interest on a "Discount Certificate" that is not "qualified stated interest" (each as defined below under "*Original Issue Discount—General*"), will be taxable to such U.S. Holder as ordinary income at the time it is received or accrued, in accordance with the U.S. Holder's method of accounting for tax purposes. Interest paid by the Trustee on the Certificates and original issue discount (**OID**), if any, accrued with respect to the Certificates (as described below under "*Original Issue Discount—General*") and payments of any additional amounts generally will constitute income from sources outside the United States subject to the rules regarding the foreign tax credit allowable to a U.S. Holder (and the limitations imposed thereon). Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of the payment of any foreign taxes with respect to the Certificates (if applicable).

Original Issue Discount

General

The following is a summary of certain U.S. federal income tax consequences to a U.S. Holder of the ownership of Certificates issued with OID. The following summary does not discuss Certificates that are characterised as contingent payment debt instruments for U.S. federal income tax purposes (**CPDIs**). If Certificates are issued that are characterised as CPDIs, supplemental U.S. federal income tax disclosure may be separately provided in an offering circular supplement or otherwise.

A Certificate, other than a Certificate with a term of one year or less (a **Short-Term Certificate**), will be treated as issued with OID (a **Discount Certificate**) if the excess of the Certificate's "stated redemption price at maturity" (as defined below) over its issue price is at least a *de minimis* amount (0.25 per cent. of the Certificate's stated redemption price at maturity multiplied by the number of complete years to its maturity) (or its "weighted average maturity" in the case of a Certificate that provides for payments other than "qualified stated interest" before maturity (an **instalment obligation**)). A Certificate's weighted average maturity is the sum of the following amounts determined for each payment on a Certificate (other than a payment of qualified stated interest): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Certificate's stated redemption price at maturity. Generally, the **issue price** of a Certificate under the applicable Pricing Supplement will be the first price at which a substantial amount of such Certificates included in the issue of which the Certificate is a part is sold to persons other than bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The **stated redemption price** at maturity of a Certificate is the total of all payments provided by the Certificate that are not payments of "qualified stated interest". A **qualified stated interest** payment generally is any one of a series of stated interest payments on a Certificate that are unconditionally payable in cash or in property (other than in debt instruments of the Trustee) at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), or a variable rate (in the circumstances described below under "*—Variable Interest Rate Certificates*"), applied to the

outstanding face amount of the Certificate. Solely for the purposes of determining whether a Certificate has OID, the Trustee will be deemed to exercise any call option that has the effect of decreasing the yield on the Certificate, and the U.S. Holder will be deemed to exercise any put option that has the effect of increasing the yield on the Certificate. If a Certificate has *de minimis* OID, a U.S. Holder must include the *de minimis* amount in income as stated principal payments are made on the Certificate, unless the U.S. Holder makes the election described below under "*Election to Treat All Interest as Original Issue Discount*". A U.S. Holder can determine the includible amount with respect to each such payment by multiplying the total amount of the Certificate's *de minimis* OID by a fraction equal to the amount of the principal payment made divided by the stated face amount of the Certificate.

U.S. Holders of Discount Certificates must include OID in income calculated on a constant yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the Discount Certificates, regardless of their method of accounting. The amount of OID includible in income by a U.S. Holder of a Discount Certificate is the sum of the daily portions of OID with respect to the Discount Certificate for each day during the taxable year or the portion of the taxable year in which the U.S. Holder holds the Discount Certificate (**accrued OID**). The daily portion is determined by allocating to each day in any accrual period a *pro rata* portion of the OID allocable to that accrual period. Accrual periods with respect to a Certificate may be of any length selected by the U.S. Holder and may vary in length over the term of the Certificates as long as (i) no accrual period is longer than one year; and (ii) each scheduled payment of interest or principal on the Certificate occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the Discount Certificate's adjusted issue price at the beginning of the accrual period and the Discount Certificate's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Certificate allocable to the accrual period. The **adjusted issue price** of a Discount Certificate at the beginning of any accrual period is the issue price of the Certificate increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Certificate that were not qualified stated interest payments.

Acquisition Premium

A U.S. Holder that purchases a Certificate for an amount less than or equal to the sum of all amounts payable on the Certificate after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being **acquisition premium**) and that does not make the election described below under "*Election to Treat All Interest as Original Issue Discount*", is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder's adjusted basis in the Certificate immediately after its purchase over the Certificate's adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Certificate after the purchase date, other than payments of qualified stated interest, over the Certificate's adjusted issue price.

Election to Treat All Interest as Original Issue Discount

A U.S. Holder may elect to include in gross income all interest that accrues on a Certificate using the constant yield method described above under "*General*", with certain modifications. For purposes of this election, interest includes stated interest, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable premium (described below under "*Original Issue Discount—Certificates Purchased at a Premium*") or acquisition premium. If a U.S. Holder makes this election for the Certificate, then, when the constant yield method is applied, the issue price of the Certificate will equal the U.S. Holder's adjusted basis immediately after its acquisition of the Certificate, the issue date of the Certificate will be the date of acquisition, and no payments on the Certificate will be treated as payments of qualified stated interest. This election generally will apply only to the Certificate with respect to which it is made and may not be revoked without the consent of

the IRS. However, if the Certificate has amortisable premium, the U.S. Holder will be deemed to have made an election to apply amortisable premium against interest for all debt instruments with amortisable premium, other than debt instruments the interest on which is excludible from gross income, held as of the beginning of the taxable year to which the election applies or any taxable year thereafter. If the election to apply the constant yield method to all interest on a Certificate is made with respect to a Market Discount Certificate, the electing U.S. Holder will be treated as having made the election discussed below under "*Market Discount*" to include market discount in income currently over the life of all debt instruments with market discount held or thereafter acquired by the U.S. Holder. U.S. Holders should consult their tax advisers concerning the propriety and consequences of this election.

Variable Interest Rate Certificates

Certificates that provide for interest at variable rates (**Variable Interest Rate Certificates**) generally will bear interest at a "qualified floating rate" and thus will be treated as "variable rate debt instruments" under U.S. Treasury regulations governing accrual of OID. A Variable Interest Rate Certificate will qualify as a "variable rate debt instrument" if (a) its issue price does not exceed the total non-contingent principal payments due under the Variable Interest Rate Certificate by more than an amount equal to the lesser of (i) 0.015 multiplied by the product of such total non-contingent principal payments and the number of complete years to maturity of the instrument (or, in the case of a Certificate providing for the payment of any amount other than qualified stated interest prior to maturity, multiplied by the weighted average maturity of the Certificate), or (ii) 15 per cent. of the total non-contingent principal payments, (b) it provides for stated interest, paid or compounded at least annually, at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate; and (c) it does not provide for any principal payments that are contingent (other than as described in (a) above).

A **qualified floating rate** is any variable rate where variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Interest Rate Certificate is denominated. A fixed multiple of a qualified floating rate will constitute a qualified floating rate only if the multiple is greater than 0.65 but not more than 1.35. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Variable Interest Rate Certificate (e.g., two or more qualified floating rates with values within 25 basis points of each other as determined on the Variable Interest Rate Certificate's issue date) will be treated as a single qualified floating rate. Notwithstanding the foregoing, a variable rate that would otherwise constitute a qualified floating rate but which is subject to one or more restrictions such as a maximum numerical limitation (i.e., a cap) or a minimum numerical limitation (i.e., a floor) may, under certain circumstances, fail to be treated as a qualified floating rate unless the cap or floor is fixed throughout the term of the Certificate.

An **objective rate** is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula and which is based on objective financial or economic information (e.g., one or more qualified floating rates or the yield of actively traded personal property). A rate will not qualify as an objective rate if it is based on information that is within the control of the Trustee (or a related party) or that is unique to the circumstances of the Trustee (or a related party), such as dividends, interests or the value of the Trustee's stock (although a rate does not fail to be an objective rate merely because it is based on the credit quality of the Trustee). Other variable interest rates may be treated as objective rates if so designated by the IRS in the future. Despite the foregoing, a variable rate of interest on a Variable Interest Rate Certificate will not constitute an objective rate if it is reasonably expected that the average value of the rate during the first half of the Variable Interest Rate Certificate's term will be either significantly less than or significantly greater than the average value of the rate during the final

half of the Variable Interest Rate Certificate's term. A **qualified inverse floating rate** is any objective rate where the rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. If a Variable Interest Rate Certificate provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period and if the variable rate on the Variable Interest Rate Certificate's issue date is intended to approximate the fixed rate (e.g., the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 25 basis points), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a "current value" of that rate. A **current value** of a rate is the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

If a Variable Interest Rate Certificate that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof qualifies as a "variable rate debt instrument", then any stated interest on the Certificate which is unconditionally payable in cash or property (other than debt instruments of the Trustee) at least annually will constitute qualified stated interest and will be taxed accordingly. Thus, a Variable Interest Rate Certificate that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof and that qualifies as a "variable rate debt instrument" generally will not be treated as having been issued with OID unless the Variable Interest Rate Certificate is issued at a "true" discount (i.e., at a price below the Certificate's stated face amount) in excess of a specified *de minimis* amount. OID on a Variable Interest Rate Certificate arising from a true discount is allocated to an accrual period using the constant yield method described above by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate, or (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Certificate.

In general, any other Variable Interest Rate Certificate that qualifies as a "variable rate debt instrument" will be converted into an "equivalent" fixed rate debt instrument for purposes of determining the amount and accrual of OID and the qualified stated interest on the Variable Interest Rate Certificate. Such a Variable Interest Rate Certificate must be converted into an "equivalent" fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided for under the terms of the Variable Interest Rate Certificate with a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Variable Interest Rate Certificate's issue date. Any objective rate (other than a qualified inverse floating rate) provided for under the terms of the Variable Interest Rate Certificate is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Certificate. In the case of a Variable Interest Rate Certificate that qualifies as a "variable rate debt instrument" and provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Interest Rate Certificate provides for a qualified inverse floating rate). Under these circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Interest Rate Certificate as of the Variable Interest Rate Certificate's issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Variable Interest Rate Certificate is converted into an "equivalent" fixed rate debt instrument in the manner described above.

Once the Variable Interest Rate Certificate is converted into an "equivalent" fixed rate debt instrument pursuant to the foregoing rules, the amount of OID and qualified stated interest, if any, are determined for the "equivalent" fixed rate debt instrument by applying the general OID rules to the "equivalent" fixed rate debt instrument and a U.S. Holder of the Variable Interest Rate Certificate will account for the OID and qualified stated interest as if the U.S. Holder held the "equivalent" fixed rate debt instrument. In each accrual period, appropriate adjustments will be made to the amount of qualified stated interest or OID assumed to have been accrued or paid with respect to the "equivalent" fixed rate debt instrument in the event that these amounts differ from the actual amount of interest accrued or paid on the Variable Interest Rate Certificate during the accrual period.

If a Variable Interest Rate Certificate, such as a Certificate the payments on which are determined by reference to an index, does not qualify as a "variable rate debt instrument", then the Variable Interest Rate Certificate will be treated as a CPDI. The proper U.S. federal income tax treatment of Variable Interest Rate Certificates that are treated as CPDI may be more fully described in the applicable Pricing Supplement.

Short-Term Certificates

In general, an individual or other cash basis U.S. Holder of a Short-Term Certificate is not required to accrue OID (calculated as set forth below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but should be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Certificates on a straight line basis or, if the U.S. Holder so elects, under the constant yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realised on the sale or other disposition of the Short-Term Certificate will be ordinary income to the extent of the OID accrued on a straight line basis (or a constant yield basis if an election is made to accrue the OID under the constant yield method) through the date of sale or other disposition. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Certificates will be required to defer deductions for interest on borrowings allocable to Short-Term Certificates in an amount not exceeding the deferred income until the deferred income is realised.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Certificate are included in the Short-Term Certificate's stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short-Term Certificate as if the Short-Term Certificate had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the Short-Term Certificate. This election shall apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

Market Discount

A Certificate, other than a Short-Term Certificate, that is not acquired at its original issue generally will be treated as purchased at a market discount (a **Market Discount Certificate**) if the Certificate's stated redemption price at maturity or, in the case of a Discount Certificate, the Certificate's revised issue price, exceeds the amount for which the U.S. Holder purchased the Certificate by at least 0.25 per cent. of the Certificate's stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the Certificate's maturity (or, in the case of an instalment obligation, the Certificate's weighted average maturity). If this excess is not sufficient to cause the Certificate to be a Market Discount Certificate, then the excess constitutes *de minimis* market discount. For this purpose, the revised issue price of a Certificate generally equals its issue price, increased by the amount of any OID that has accrued on the Certificate and decreased by the amount of any payments previously made on the Certificate that were not qualified stated interest payments.

Any gain recognised on the maturity or disposition of a Market Discount Certificate (including any payment on a Certificate that is not qualified stated interest) will be treated as ordinary income to the extent that the gain does not exceed the accrued market discount on the Certificate. Alternatively, a U.S. Holder of a Market Discount Certificate may elect to include market discount in income currently over the life of the Certificate. This election shall apply to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies. This election may not be revoked without the consent of the IRS. A U.S. Holder of a Market Discount Certificate that does not elect to include market discount in income currently generally will be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Certificate that is in excess of the interest and OID on the Certificate includible in the U.S. Holder's income, to the extent that this excess interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Certificate was held by the U.S. Holder.

Market discount will accrue on a straight line basis unless the U.S. Holder elects to accrue the market discount on a constant yield method. This election applies only to the Market Discount Certificate with respect to which it is made and is irrevocable.

Certificates Purchased at a Premium

A U.S. Holder that purchases a Certificate for an amount in excess of its face amount, or for a Discount Certificate, its stated redemption price at maturity, may elect to treat the excess as "amortisable premium", in which case the amount required to be included in the U.S. Holder's income each year with respect to interest on the Certificate will be reduced by the amount of amortisable premium allocable (based on the Certificate's yield to maturity) to that year. Any election to amortise premium shall apply to all securities (other than securities the interest on which is excludable from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. See also "*Original Issue Discount—Election to Treat All Interest as Original Issue Discount*" above. A U.S. Holder that does not elect to take premium (other than acquisition premium) into account currently will recognise a capital loss when the Certificate matures.

Sale or Other Disposition of Certificates

A U.S. Holder's tax basis in a Certificate generally will be its cost, increased by the amount of any OID or market discount included in the U.S. Holder's income with respect to the Certificate and the amount, if any, of income attributable to *de minimis* OID and *de minimis* market discount included in the U.S. Holder's income with respect to the Certificate, and reduced by (i) the amount of any payments other than qualified stated interest payments, and (ii) the amount of any amortisable premium or acquisition premium applied to reduce interest on the Certificate.

A U.S. Holder generally will recognise gain or loss on the sale or other disposition of a Certificate equal to the difference between the amount realised on the sale or other disposition and the tax basis of the Certificate. Except to the extent described above under "*Original Issue Discount—Market Discount*" or "*Original Issue Discount—Short-Term Certificates*" or attributable to accrued but unpaid interest or changes in exchange rates (as discussed below), gain or loss recognised on the sale or other disposition of a Certificate will be capital gain or loss and generally will be treated as from U.S. sources for purposes of the U.S. foreign tax credit limitation. In the case of a U.S. Holder that is an individual, estate or trust, the maximum marginal federal income tax rates applicable to capital gain are currently lower than the maximum marginal rates applicable to ordinary income if the Certificates have been held for more than one year at the time of the sale or other disposition. The deductibility of capital losses is subject to significant limitations.

Potential Alternative Characterisation of the Certificates

The Trustee generally intends to treat Certificates issued under the Programme as debt, unless otherwise indicated in the supplemental U.S. federal income tax disclosure provided in an offering circular supplement or otherwise. However, the IRS may seek to characterise these 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 under "*Sale or Other Disposition of Certificates*" and "*Payment of Periodic Distribution Amounts*", the Trustee 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 Trustee. 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 Trustee 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 Trustee for failure to comply. The Trustee 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. Alternatively, it is possible the IRS could seek to characterise an interest in a Certificate as a direct interest in two separate instruments for U.S. federal income tax purposes, in which case the amount and timing of U.S. taxable income derived from the Certificates could differ from that described above, but the foreign trust reporting rules (and penalties) would not apply. U.S. Holders should consult their own tax advisers as to the potential alternative characterisation of the Certificates under U.S. federal income tax rules and the potential application of the foreign trust reporting rules and the tax consequences generally with respect to an investment in the Certificates.

Foreign Currency Certificates

Interest and OID

If an interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognised by a cash basis U.S. Holder will be the U.S. Dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. Dollars. An accrual basis U.S. Holder may determine the amount of income recognised with respect to a Foreign Currency Certificate in accordance with either of two methods.

Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year). Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if the last day of the accrual period is within five business days of the date of receipt of the accrued interest, a U.S. Holder that has made such election may translate accrued interest using the spot rate of exchange in effect on the date of receipt. The above election will apply to all debt obligations held by such U.S. Holder and may not be changed without the consent of the IRS. A U.S. Holder will recognise, as ordinary income or loss, foreign currency exchange gain or loss with respect to accrued interest income on the date the interest is actually or constructively received, reflecting fluctuations in currency exchange rates between the spot rate of exchange used to determine the accrued interest income for the

relevant accrual period and the spot rate of exchange on the date such interest is actually or constructively received.

OID for each accrual period on a Discount Certificate that is denominated in, or determined by reference to, a foreign currency, will be determined in the foreign currency and then translated into U.S. Dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above. Upon receipt of an amount attributable to OID (whether in connection with a payment of interest or the sale or other disposition of the Certificate), a U.S. Holder may recognise foreign exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. Dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. Dollars.

Market Discount

Market discount on a Certificate that is denominated in, or determined by reference to, a foreign currency, will be accrued in the foreign currency. If the U.S. Holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. Dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder's taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. Holder may recognise U.S. source exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued interest or OID. A U.S. Holder that does not elect to include market discount in income currently will recognise, upon the disposition or maturity of the Certificate, the U.S. Dollar value of the amount accrued, calculated at the spot rate on that date, and no part of this accrued market discount will be treated as exchange gain or loss.

Premium

Premium (including acquisition premium) on a Certificate that is denominated in, or determined by reference to, a foreign currency, will be computed in units of the foreign currency, and any such premium that is taken into account currently will reduce interest income in units of the foreign currency.

On the date premium offsets interest income, a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the amount of offset multiplied by the difference between the spot rate in effect on that date, and the spot rate in effect on the date the Certificates were acquired by the U.S. Holder. A U.S. Holder that does not elect to take premium (other than acquisition premium) into account will recognise a capital loss when the Certificate matures.

Sale or Other Disposition of Certificates

A U.S. Holder's tax basis in a Foreign Currency Certificate will be determined by reference to the U.S. Dollar cost of the Certificate. The U.S. Dollar cost of a Certificate purchased with foreign currency generally will be the U.S. Dollar value of the purchase price on the date of purchase or, in the case of Certificates traded on an established securities market, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase.

A U.S. Holder generally will recognise gain or loss on the sale or other disposition of a Certificate equal to the difference between the amount realised on the sale or other disposition and its tax basis in the Certificate. The amount realised on a sale or other disposition for an amount in foreign currency will be the U.S. Dollar value of this amount on the date of sale or other disposition or, in the case of Certificates traded on an established securities market, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

A U.S. Holder will recognise U.S. source exchange rate gain or loss (taxable as ordinary income or loss) on the sale or other disposition of a Foreign Currency Certificate equal to the difference, if any, between the U.S. Dollar values of the U.S. Holder's purchase price for the Certificate (or, if less, the face amount of the Certificate) (i) on the date of sale or other disposition, or, in the case of Certificates traded on an established securities market sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale and (ii) the date on which the U.S. Holder acquired the Certificate. Any such exchange rate gain or loss (including any exchange gain or loss with respect to the receipt of accrued but unpaid interest) will be realised only to the extent of total gain or loss realised on the sale or retirement.

Foreign Tax Credit Considerations

If Pakistani taxes were to be imposed on payments with respect to the Certificates, see "*Pakistan Taxation*", subject to applicable limitations and holding period requirements, a U.S. Holder may be eligible to elect to claim a credit against its U.S. federal income tax liability for any such Pakistani taxes. A U.S. Holder that does not claim a U.S. foreign tax credit generally may instead claim a deduction for any such Pakistani taxes, but only for any taxable year in which such U.S. Holder elects to do so with respect to all non-U.S. income taxes. The rules relating to foreign tax credits are very complex, and each U.S. Holder should consult its own tax advisers regarding the application of such rules and the creditability or deductibility of any Pakistani taxes.

Backup Withholding and Information Reporting

In general, payments of principal, interest and accrued OID on, and the proceeds of a sale, redemption or other disposition of, Certificates, payable to a U.S. Holder by a U.S. or certain U.S.-related paying agents or intermediaries will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding will apply to these payments (including payments of OID) if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise comply with the applicable backup withholding requirements. Certain U.S. Holders are not subject to backup withholding.

Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the IRS in the manner required. Certain U.S. Holders (including, among others, corporations) are not subject to information reporting or backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from information reporting and/or backup withholding.

Reportable Transaction Reporting

Under certain U.S. Treasury Regulations, U.S. Holders that participate in "reportable transactions" (as defined in the U.S. Treasury Regulations) must attach to their U.S. federal income tax returns a disclosure statement on Form 8886. Under the relevant rules, if the Certificates are denominated in a foreign currency, a U.S. Holder may be required to treat foreign currency exchange loss from the Certificates as a reportable transaction if this loss exceeds the relevant threshold in the regulations (U.S.\$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amount for other non-individual U.S. Holders), and to disclose its investment by filing Form 8886 with the IRS. A penalty of up to U.S.\$10,000 in the case of a natural person and U.S.\$50,000 in all other cases may be imposed in any taxable year on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. U.S. Holders should consult their own tax advisers as to the possible obligation to file Form 8886 with respect to the ownership or disposition of the Certificates, or any related transaction, including without limitation, the disposition of any foreign currency received as interest or as proceeds from the sale, exchange or retirement of the Certificates.

Specified Foreign Financial Assets

Certain United States persons that own "specified foreign financial assets," including securities issued by any foreign person, either directly or indirectly or through certain foreign financial institutions, may be subject to additional reporting obligations if the aggregate value of all of those assets exceeds U.S.\$50,000 on the last day of the taxable year or U.S.\$75,000 at any time during the taxable year, or certain other requirements are met. The Certificates may be treated as specified foreign financial assets, and U.S. Holders may be subject to this information reporting regime. Significant penalties and an extended statute of limitations may apply to a U.S. Holder that fails to file information reports. U.S. Holders should consult their own tax advisers regarding these potential information reporting obligations.

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 Certificates (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) № 1287/2006 are expected to be exempt.

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 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 Certificates are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, a programme agreement (the **Programme Agreement**) dated 18 January 2022, agreed with the Trustee and the Government a basis upon which they or any of them may from time to time agree to purchase Certificates.

In accordance with the terms of the Programme Agreement, each of the Trustee and the Government has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Certificates under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

Transfer Restrictions

As a result of the following restrictions, purchasers of Certificates in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Certificates

Each purchaser of Certificates (other than a person purchasing an interest in a Global Certificate with a view to holding it in the form of an interest in the same Global Certificate) or person wishing to transfer an interest from one Global Certificate to another or from global to definitive form or *vice versa*, will be required to acknowledge, represent and agree, and each person purchasing an interest in a Global Certificate with a view to holding it in the form of an interest in the same Global Certificate will be deemed to have acknowledged, represented and agreed, as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (a) that either: (i) it is a QIB, purchasing the Certificates for its own account or for the account of one or more QIBs and it is aware, and any person on whose account it is acting has been advised, that any sale to it is being made in reliance on Rule 144A or (ii) it is outside the United States;
- (b) that it, and each account for which it is purchasing, will hold and transfer at least the minimum denomination of Certificates;
- (c) that the Certificates are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Certificates have not been and will not be registered under the Securities Act or any other applicable U.S. State securities laws and may not be offered, sold, pledged or otherwise transferred except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any other applicable U.S. State securities law;
- (d) that, unless it holds an interest in a Regulation S Global Certificate and is a person located outside the United States, if in the future it decides to resell, pledge or otherwise transfer the Certificates or any interests in the Certificates, it will do so prior to the expiration of the applicable required holding period determined pursuant to Rule 144 of the Securities Act from the later of the last Issue Date for the Series and the last date on which the Trustee or an affiliate of the Trustee was the owner of such Certificates, only (i) to the Trustee or any affiliate thereof, (ii) inside the United States to a person whom the seller and any person acting on its behalf reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (iii) outside the United States in offshore transactions in compliance with Rule 903 or Rule 904 of Regulation S under the Securities Act, (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (v) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;

- (e) it will, and will require each subsequent holder to, notify any purchaser or transferee, as applicable, of the Certificates from it of the resale and transfer restrictions referred to in paragraph (d) above, if then applicable;
- (f) that Certificates initially offered and sold in the United States to QIBs in reliance on Rule 144A will be represented by one or more Rule 144A Global Certificates and that Certificates offered and sold outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Certificates;
- (g) it understands that before any interest in Certificates represented by 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 to each of the Principal Paying Agent and the Registrar a written confirmation substantially in the form set out in the Agency Agreement, amended as appropriate to the effect that such offer, sale, pledge or other transfer is being made in accordance with Regulation S;
- (h) that the Certificates in registered form, other than the Regulation S Global Certificates, will bear a legend to the following effect, unless otherwise agreed to by the Trustee.

"THE CERTIFICATES REPRESENTED BY THIS GLOBAL CERTIFICATE HAVE 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. THE OFFER, SALE, PLEDGE OR TRANSFER OF THE CERTIFICATES REPRESENTED BY THIS GLOBAL CERTIFICATE IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. BY ITS ACQUISITION HEREOF, THE HOLDER: (A) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT (QIB) PURCHASING THIS SECURITY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS; AND (B) AGREES THAT IT WILL NOT RESELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PRIOR TO THE EXPIRATION OF THE APPLICABLE REQUIRED HOLDING PERIOD DETERMINED PURSUANT TO RULE 144 OF THE SECURITIES ACT FROM THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE TRUSTEE OR AN AFFILIATE OF THE TRUSTEE WAS THE OWNER OF SUCH SECURITIES, OTHER THAN (1) TO THE TRUSTEE OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QIB PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) TO NON-U.S. PERSONS IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; PROVIDED THAT, IN THE CASE OF A TRANSFER PURSUANT TO CLAUSE (2), A TRANSFEROR OF THE CERTIFICATES WILL BE REQUIRED (A) TO EXECUTE AND DELIVER TO THE TRUSTEE AND THE REGISTRAR AND THE TRANSFER AGENT A TRANSFER CERTIFICATE (THE FORM OF WHICH IS ATTACHED TO THE AGENCY AGREEMENT AND CAN BE OBTAINED FROM THE REGISTRAR AND THE TRANSFER AGENT) AND (B) TO EXCHANGE THE PORTION OF THIS GLOBAL CERTIFICATE TO BE SO TRANSFERRED FOR AN INTEREST IN A RULE 144A

CERTIFICATE OR A DEFINITIVE CERTIFICATE TO BE REGISTERED IN THE NAME OF THE TRANSFEREE.

PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLERS OF THE CERTIFICATES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.

EACH HOLDER OF THIS CERTIFICATE OR AN INTEREST HEREIN AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS CERTIFICATE OR AN INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

FOR THE PURPOSES HEREOF, "OFFSHORE TRANSACTION" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY RULE 902 OF REGULATION S UNDER THE SECURITIES ACT.";

- (i) if it is outside the United States, that if it should resell or otherwise transfer the Certificates, it shall do so in accordance with all applicable U.S. State securities laws; and it acknowledges that the Regulation S Global Certificates will bear a legend to the following effect unless otherwise agreed to by the Trustee:
"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 MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS, EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT."; and
- (j) that the Trustee, each Agent, each Manager and their affiliates or, as the case may be, the relevant Dealer and its affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Trustee and the Managers or, as the case may be, the relevant Dealer; and if it is acquiring any Certificates as a fiduciary or agent for one or more 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 acknowledgements, representations and agreements on behalf of each such account.

No sale of Legended Certificates in the United States to any one purchaser will be for less than U.S.\$200,000 (or its foreign currency equivalent) face amount and no Legended Certificate will be issued in connection with such a sale in a smaller face amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$200,000 (or its foreign currency equivalent) of Certificates.

Selling Restrictions

United States

The Certificates have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered, sold, pledged or otherwise transferred within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from or not subject to, the registration requirements of the Securities Act.

Accordingly, the Certificates are being offered, sold or delivered only outside the United States in offshore transactions to non-U.S. persons in accordance with Regulation S. Until 40 days after the completion of the distribution of all Certificates of the Tranche of which such Certificates are a part, an offer, delivery or sale of Certificates within the United States or to, or for the account or benefit of, U.S. persons by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Dealers may directly or through their respective U.S. broker-dealer affiliates arrange for the resale of Certificates to QIBs pursuant to Rule 144A and each such purchaser of Certificates is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A.

This Offering Circular has been prepared by the Trustee and the Government for use in connection with the offer and sale of the Certificates outside the United States and for the resale of the Certificates in the United States to QIBs in accordance with Rule 144A. The Trustee, the Government and the Dealers reserve the right to reject any offer to purchase the Certificates, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States, other than any QIB to whom an offer has been made directly by one of the Dealers or its U.S. broker-dealer affiliate.

Public Offer Selling Restriction under the Prospectus Regulation

In relation to each Member State of the European Economic Area (each a **Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Certificates which are the subject of the offering contemplated by this Offering Circular as completed by the applicable Pricing Supplement in relation thereto to the public in that Member State, except that it may make an offer of such Certificates to the public in that Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Trustee and the Government for any such offer; or
- (c) at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Certificates referred to in (a) to (c) above shall require the Trustee, the Government or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression: (i) an **offer of Certificates to the public** in relation to any Certificates in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Certificates to be offered so as to enable an investor to decide to purchase or subscribe for the Certificates; and (ii) **Prospectus Regulation** means Regulation (EU) No 2017/1129.

United Kingdom

Public Offer Selling Restriction under the UK Prospectus Regulation

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Certificates which are the subject of the offering contemplated by this Offering Circular as completed by the applicable Pricing Supplement in relation thereto to the public in the United Kingdom except that it may make an offer of such Certificates to the public in the United Kingdom:

- (a) at any time to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulation;
- (b) at any time to fewer than 150 persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Trustee and the Government for any such offer; or
- (c) at any time in any other circumstances falling within section 86 of the FSMA,

provided that no such offer of Certificates referred to in (a) to (c) above shall require the Trustee, the Government or any Dealer to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression: (i) **an offer of Certificates to the public** in relation to any Certificates means the communication in any form and by any means of sufficient information on the terms of the offer and the Certificates to be offered so as to enable an investor to decide to purchase or subscribe for the Certificates; and (ii) **UK Prospectus Regulation** means Regulation (EU) No 2017/1129 as it forms part of domestic law by virtue of the EUWA.

Other Regulatory Restrictions

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Certificates which have a maturity of less than one year: (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (ii) it has not offered or sold and will not offer or sell any Certificates other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Certificates would otherwise constitute a contravention of Section 19 of the FSMA by the Trustee;
- (b) 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 FSMA) received by it in connection with the issue or sale of any Certificates in circumstances in which Section 21(1) of the FSMA does not apply to the Trustee and/or the Government; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Certificates in, from or otherwise involving the UK.

Islamic Republic of Pakistan

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Certificates to be issued under the Programme or any interests therein will 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 State Bank of Pakistan has confirmed that non-resident Pakistani citizens are free to purchase Certificates and to transfer 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.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Certificates to be issued under the Programme 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 Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer the Certificates to be issued under the Programme 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**) rulebook; and
- (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the 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 any Certificates pursuant to an offering should note that the offer of Certificates is a private placement under the "Rules on the Offer of Securities and Continuing Obligations" as issued by the Board of the Capital Market Authority (the **CMA**) resolution number 3-123-2017 dated 27 December 2017, as amended (the **KSA Regulations**), made through an authorised person licensed to carry out arranging activities by the CMA and following a notification to the CMA and in each case, in accordance with the KSA Regulations.

The Certificates may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "Sophisticated Investors" under Article 9 of the KSA Regulations or by way of a limited offer under Article 10, or as otherwise required or permitted by, the KSA Regulations. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer of Certificates made by it to a Saudi Investor will be made in compliance with the KSA Regulations.

Each offer of Certificates shall not therefore constitute a "public offer", an "exempt offer" or a "parallel market offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under the KSA Regulations. Any Saudi Investor who has acquired Certificates pursuant to a private placement under Article 9 or Article 10 of the KSA Regulations may not offer or sell those Certificates to any person unless the offer or sale is made in compliance with the restrictions on secondary market activity under the KSA Regulations.

Japan

The Certificates have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No 25 of 1948, as amended; the **FIEA**) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Certificates, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Certificates other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the **SFO**) and any rules made under the SFO; or (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 **C(WUMP)O**) or which do not constitute an offer to the public within the meaning of the **C(WUMP)O**; and
- (b) it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to any Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed that, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Certificates or caused the Certificates to be made the subject of an invitation for subscription or purchase and will not offer or sell any Certificates or cause the Certificates to be made the subject of an invitation for subscription or purchase and has not circulated or distributed, nor will it circulate or distribute, 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, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

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

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

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

- (a) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (b) where no consideration is or will be given for the transfer;
- (c) where the transfer is by operation of law;
- (d) as specified in Section 276(7) of the SFA; or
- (e) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Malaysia

This Offering Circular has not been registered as a prospectus with the Securities Commission of Malaysia under the CMSA. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Certificates have not been and will not be offered, sold or delivered, 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 falling within any one of the categories of persons specified under Part I of Schedule 6 or Section 229(1)(b) and Part I of Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3), read together with Schedule 9 or Section 257(3) of the CMSA, subject to any law, order, regulation or official directive of 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 any Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Dealers is responsible for any invitation, offer, sale or purchase of any Certificates as aforesaid without the necessary approvals being in place.

General

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will obtain any consent, approval or permission which is, to the best of its knowledge and belief, required by it for the purchase, offer or sale by it of Certificates under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales and it will, to the best of its knowledge and belief, comply with such laws and regulations to the extent they are applicable to such Dealer in connection with the offer or sale by it of Certificates.

None of the Trustee, the Government and the Dealers represents and agrees that Certificates may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

GENERAL INFORMATION

Authorisation

The establishment of the Programme was approved on 16 July 2019 by the Cabinet of Pakistan, pursuant to Rule 16(1)(d) of the Rules of Business of the Government of Pakistan 1973 (as amended).

The issue of the Certificates and the entry into the Transaction Documents have been duly authorised by a resolution of the board of directors of the Trustee dated 22 November 2021. The Trustee 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 of Certificates

Application has been made to the London Stock Exchange for the Certificates issued under the Programme during the period of 12 months from the date of this Offering Circular to be admitted to the ISM. The ISM is not a regulated market for the purposes of UK MiFIR. The ISM is a market designated for professional investors. Certificates admitted to trading on the ISM are not admitted to the Official List of the FCA. The London Stock Exchange has not approved or verified the contents of this Offering Circular.

Certificates may also be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or that they will be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Trustee, the Government and the relevant Dealer.

Documents Available

For the period of 12 months following the date of this Offering Circular, copies of the following documents will, when published in accordance with the ISM Rulebook, be available for inspection and/or collection (including by way of email distribution) during normal business hours from the specified office of the Principal Paying Agent for the time being in London:

- (a) the Transaction Documents;
- (b) the constitutional documents of the Trustee;
- (c) a copy of this Offering Circular; and
- (d) any supplements to this Offering Circular.

Since the date of its incorporation, no financial statements of the Trustee have been prepared. The fiscal year of the Trustee will end on 30 June of each year. The Trustee 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 Trustee will not prepare any interim accounts.

Clearing Systems

The Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Certificates allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. In addition, the Trustee may make an application for any Certificates to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers

for each Tranche of such Certificates, together with the relevant ISIN and (if applicable) common code, will be specified in the applicable Pricing Supplement. If the Certificates are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Conditions for determining price

The price and amount of Certificates to be issued under the Programme will be determined by the Trustee, the Government and each relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant Change

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

There has been no significant change in the tax and budgetary systems, gross public debt, foreign trade and balance of payments, foreign exchange reserves, financial position and resources, income and expenditure figures of the Government since 30 June 2021.

Litigation

The Trustee is not, nor has it been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Trustee is aware) in the 12 months preceding the date of this Offering Circular which may have, or have had in such period, a significant effect on the financial position of the Trustee.

With the exception of a dispute between the Government and Tethyan Copper Company Pty Limited, discussed in "*The Islamic Republic of Pakistan—Significant Litigation*", the Government is not, nor has it 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 significant effect on the financial position of the Government.

Dealers transacting with the Government

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Government and its affiliates in the ordinary course of business for which they may receive fees and reimbursement of expenses. They have received, or may in the future receive, customary fees and commission for these transactions.

In addition, in the ordinary course of their business activities, the Dealers 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, for the accounts of their customers or in the capacity of investment advisers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such investments and securities activities may involve securities and/or instruments of the Trustee, the

Government or its agencies, including the Certificates offered under the Programme, and may be entered into at the same time or proximate to offers and sales of Certificates under the Programme or at other times in the secondary market and may be carried out with counterparties that are also purchasers, holders or sellers of Certificates. The Dealers or their respective affiliates may purchase Certificates and be allocated Certificates for asset management and/or proprietary purposes and not with a view to distribution. Certain of the Dealers or their affiliates that may, from time to time, have a lending relationship with the Government, may routinely hedge their credit exposure to the Government and, consistent with their customary risk management policies, take steps to mitigate their risk. Typically, such Dealers 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 issued under the Programme. Any such short positions could adversely affect future trading prices of Certificates issued under the Programme. The Dealers 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. In addition, any role of the Dealers or their respective affiliates as agents and/or lenders in any existing lending relationship with the Government should not be taken as a recommendation to purchase any Certificates issued under the Programme.

TRUSTEE

The Pakistan Global Sukuk Programme Company Limited

Block S
Ministry of Finance
Pakistan Secretariat
Islamabad
Pakistan

GOVERNMENT

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

Block S
Pakistan Secretariat
Ministry of Finance
Islamabad
Pakistan

DELEGATE

BNY Mellon Corporate Trustee Services Limited

One Canada Square
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London E14 5AL
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EXCHANGE AGENT AND TRANSFER
AGENT**

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REGISTRAR

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