VIS

Credit Rating Company Limited

CORPORATE GOVERNANCE RATINGS

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SCOPE OF CRITERIA

Governance is the process by which entities establish their rules and policies and implement and monitor them. Good governance is participatory, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive and follows the rule of law. Best corporate governance practices benefit stakeholders at all levels of the organization by enhancing transparency, increasing accountability, improving risk management, attracting investors, complying with regulations and growing sustainably.

Corporate governance comprises the framework of rules, relationships, systems and processes within and by which fiduciary authority is exercised and controlled in institutions. Ratings of corporate governance provide a third-party opinion on the corporate governance practices of an institution. Corporate governance ratings require a comprehensive knowledge of all relevant legal and regulatory issues as well as an in-depth study of the corporate governance practices of individual institutions and matching these against global 'best practices.

This document firstly discusses the fundamental concepts underlying the VIS Corporate Governance Rating and then outlines the analysis process that will be used to assess the strength of an entity's corporate governance. The corporate governance strength rating is qualitative. It is not a credit analysis or recommendation to invest. The corporate governance rating is based on current information provided to VIS by the company rated and other sources we consider reliable. Ratings may be withdrawn when the information received is not transparent, clear and delivered in a timely manner.

SUMMARY OF CRITERIA CHANGES

Whilst no changes have been made in the methodology, scope of criteria has been revised in the interest of better explanation.

OVERVIEW OF RATINGS FRAMEWORK

There are different codes of best practices on corporate governance around the world. The VIS methodology for assessing corporate governance is based on the assessment of five fundamental parameters that are relevant to any type of entity, regardless of the sector or legal standing. These parameters include (a) Corporate governance framework including responsibilities of the board of directors and the senior management team, ownership structure (b) Self-Regulation including audit practices, risk management and Internal Control and (c) financial transparency and disclosure, and (d) Stakeholder relations including performance in ESG and (e) Regulatory compliance as assessment and determination of the extent and level of achievement with the applicable regulatory code of governance framework. A level of compliance with standards in the different parameters evaluated is established for each pillar. A high rating for a factor will mean that, in terms of this factor, the entity's corporate governance meets the highest standards of best practices. If the entity's corporate governance receives a medium rating for the factors in the parameter evaluated, this will mean their standards fall within the acceptable range for compliance with best practices. Lastly, an entity's corporate governance that receives a low rating for one of the factors analyzed means they do not satisfactorily comply with best practices. The factors described in this methodology will be weighted according to the level of importance of the component factors. The factors to be analyzed for each pillar will also be given their own relative weighting. The sum of the relative weights for the five sections, weighted by the level of strength VIS rating team has determined, will give a rating on the strength of the entity's corporate governance practices. The VIS rating team may, through adjustment considerations, assign a higher or lower level of relative strength within the same final rating, by adding positive signs.

These attributes will be assigned if, in the opinion of VIS, the rating scale does not fully allow for the relevance of a certain factor.

RATINGS METHODOLOGY

This methodology discusses the characteristics that VIS considers relevant to assess the strength of an entity's corporate governance. Our rating process starts with the entity providing information. Once we have all the elements required, we then proceed to analyze the information, which is then compiled into a committee package and presented to our Rating Committee. This Committee then issues an objective opinion on the strength of the company's corporate governance. A fundamental part of the rating process includes meeting with the entity's key people at their offices, to better learn how the entity's corporate governance operates. These meetings are used to answer questions about procedures and to analyze and verify the application of these procedures, and also how they are addressed in manuals and policies. Our corporate governance ratings are dynamic. VIS monitors these ratings annually to collect timely and sufficient information to maintain our opinion on the strength of the corporate governance. The frequency of these reviews may vary on the express request of the entity rated, or as required, due to any relevant event, or at the discretion of VIS. Regardless, the rating process -including the meeting with the entity's key people- will be conducted at least once a year. The rating process consists of a high, medium or low designation after analyzing the factors in each of the five parameters that comprise the analysis. Each factor, and the parameters themselves, will receive a value weighted according to their importance. The rating for each factor, multiplied by its relative value within the methodology, will assign the points that will give, at the end of the analysis process, a rating between GC 1 and GC 9 for the entity's corporate governance. When it is found that a factor assessed has a greater importance than the weighting it receives and this factor proves relevant in the general corporate governance rating, relative strength may be assigned within the rating and is reflected in the rating with positive signs.

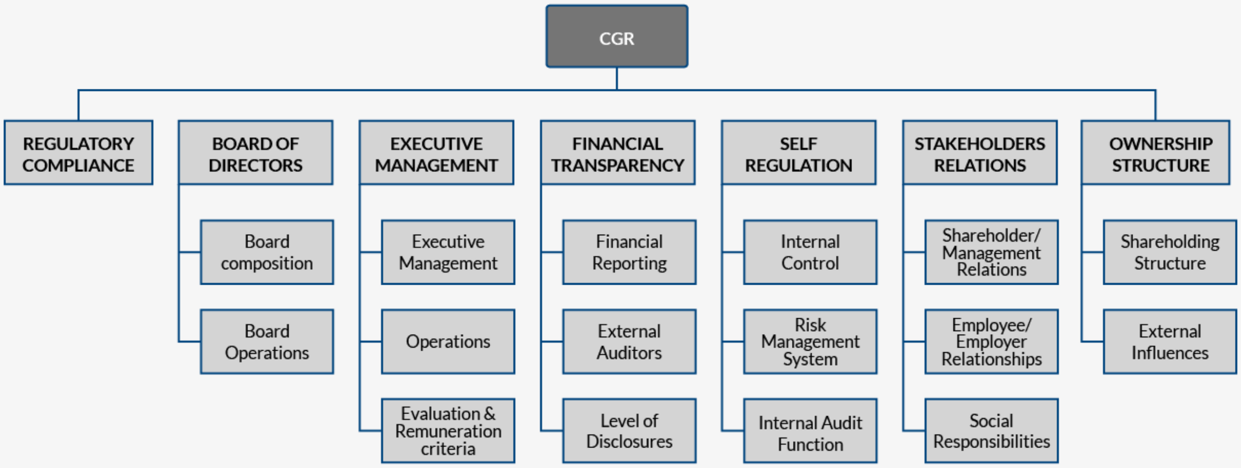
Corporate governance has been given increasing attention in Pakistan also, with both the Securities & Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP) showing keen interest in improving the quality of corporate governance in the institutions under their respective jurisdictions. In Pakistan there are separates code of corporate governance for listed companies, rules for corporate governance of public sector companies and principles of corporate governance for unlisted companies. As in the West, this understanding of the importance of corporate governance developed when post-mortems of several failed and sick institutions revealed that the problems faced by them were almost entirely due to poor corporate governance rather than business failures. For example all the high profile bank failures in Pakistan largely occurred due to factors that could have been avoided had strong corporate governance procedures were in place. On the industry side also there has been a realization that the regulators have to adopt means to protect the interests of the minority shareholders and ensure that the Board of Directors plays its due role as the representative of the shareholders in formulation of policies and supervising the performance of management.

The SECP has addressed the Corporate Governance comprehensively and has issued Corporate Governance Framework for designated classes of companies including listed companies, public sector companies, and insurance companies for mandatory compliance. The Corporate Governance Framework is a combination of a cross section of provisions, which cover almost the entire spectrum of issues that need to be addressed to create a proper environment for corporate governance. Besides, corporate governance principles for non-listed companies have been issued for guidance and voluntary compliance, a monitoring mechanism for each ensures compliance.

The State Bank of Pakistan has also implemented a CORPORATE GOVERNANCE REGULATORY FRAMEWORK for the financial institutions regulated by it. This comprehensive framework aims to consolidate the corporate governance instructions, align corporate governance with international and local best practices, laws, rules and regulations. SBP also requires all Banks/DFIs would also follow the code of corporate governance for listed companies issued by the SECP to the extent they are not in conflict with the SBP stipulations.

VIS believes that in the long run, companies will only be able to access long-term capital if their potential stakeholders are convinced that their interests will be looked after by the management. Investor confidence in corporate governance practices can be enhanced through the use of a third-party opinion.

While carrying out CGRs, VIS aims to determine to what extent the corporate governance practices put in place by management help in achieving the ultimate goals of transparency, accountability and fair play. The following are the key areas VIS examines while assigning a CGR:



Environmental, Social, and Governance (ESG) considerations have become integral to corporate governance in recent years, reflecting the growing awareness of a company's broader responsibilities beyond financial performance. Corporate governance, as a framework of systems, principles, and processes guiding a company's decision-making and operations, includes ESG as a critical subset to address the needs of stakeholders and ensure long-term sustainable growth. Detailed "ESG RATING METHODOLOGY", is available at our website on the following link, https://docs.vis.com.pk/docs/ESGRatingMethodology.pdf

RATING SCALE & DEFINITIONS

Rating Scale and Definitions may be accessed at (https://docs.vis.com.pk/docs/VISRatingScales.pdf).

Jahangir Kothari Parade (Lady LLoyd Pier) Inspired by Her Excellency, The Honorable Lady Lloyd, this promenade pier and pavillion was constructed at a cost of 3 Lakhs and donated to the public of Karachi by Jahangir Kothari to whose genrosity and public spirit the gift is due. Foundation stone laid on January 5, 1920. Opened by Her Excellency, The Honorable Lady Lloyd on March 21, 1921.

Dome: A roof or vault, usually hemispherical in form. Until the 19th century, domes were constructed of masonry, of wood, or of combinations of the two, frequently reinforced with iron chains around the base to counteract the outward thrust of the structure.

Origins: The dome seems to have developed as roofing for circular mud-brick huts in ancient Mesopotamia about 6000 years ago. In the 14th century B.C. the Mycenaean Greeks built tombs roofed with steep corbeled domes in the shape of pointed beehives (tholos tombs). Otherwise, the dome was not important in ancient Greek architecture. The Romans developed the masonry dome in its purest form, culminating in a temple built by the emperor Hadrian. Set on a massive circular drum the coffered dome forms a perfect hemisphere on the interior, with a large oculus (eye) in its center to admit light.

VIS Credit Rating Company Limited is committed to the protection of investors and offers a blend of local expertise and international experience to serve the domestic financial markets. With its international reach, VIS is positioned to aim for an international mark. In this regard, the global experience of our international affiliates and partners have been invaluable towards adding depth to our ongoing research endeavors, enriching us in ways, that enable us to deliver our responsibilities to the satisfaction of all investors. The edifice of the Jahangir Kothari Parade has stood proudly through the years and is a symbol of our heritage. Its 'Dome' as the most stable of building structures, exemplifies architectural perfection. Committed to excellence, VIS continues its endeavour to remain an emblem of trust.

INTERNATIONAL

Affiliates

Islamic International Rating Agency – **Bahrain –** iira.com
Credit Rating Information & Services Ltd. – **Bangladesh –** crislbd.com

Collaborations

Japan Credit Rating Agency, Ltd. - **Japan**
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