

## CORPORATE GOVERNANCE REPORT

### Pakistan Kuwait Investment Company (Private) Limited (PKIC)

**REPORT DATE:**

January 15, 2020

**RATING ANALYSTS:**

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#### RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Corporate Governance	Corporate Governance
Entity	CGR-9	CGR-9
Rating Date	Jan 13, '20	Jan 25, '19

#### COMPANY INFORMATION

Incorporated in 1979	External auditors: EY Ford Rhodes, Chartered Accountants
Private Limited Company	Chairman of the Board: Mr. Abdullah A. Al-Ramadhan
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Mubashar Maqbool
Kuwait Investment Authority – 50%	
State Bank of Pakistan – 50%	

#### APPLICABLE METHODOLOGY(IES)

VIS Corporate Governance Rating Criteria: Corporate Governance Ratings (August, 2017)

<http://vis.com.pk/kc-meth.aspx>

## Pakistan Kuwait Investment Company (Private) Limited

## OVERVIEW OF THE INSTITUTION

PKIC was incorporated as a private limited company in 1979. The respective shareholdings of the Governments of Kuwait (GoK) (rated 'AA/A-1+' by an international rating agency with a stable outlook) and Pakistan in PKIC are held through the Kuwait Investment Authority (KIA) and the State Bank of Pakistan. KIA is one of the oldest sovereign wealth funds in the world responsible for investment and management of funds on behalf of GoK.

**Profile of Chairman**

Mr. Abdullah Abdulvabab Al-Ramadhan is the Chairman of the Board of Directors of Pak-Kuwait Investment Company (Private) Limited. He was nominated on the Board by Kuwait Investment Authority on May 12, 2012. Mr. Ramadhan is a seasoned professional and has work experience in the field of banking, finance and investment. He also served as Senior Investment Manager – Alternative Investment Sector of KIA. He has also served as member of the Board of Kuwait Real Estate Investment Consortium-Kuwait. He holds a degree in Business Administration (B.A) from University of Mankato – U.S.A. Mr. Ramadhan is also a Certified Director by the Pakistan Institute of Corporate Governance (PICG).

## RATING RATIONALE

Given the Joint Venture Agreement (JVA) between the Government of Pakistan (GoP) and Government of Kuwait (GoK), Pakistan Kuwait Investment Company (Private) Limited (PKIC) Given the joint venture structure, PKIC is exempted from provisions of the Code of Corporate Governance applicable on DFIs, in accordance with the circular issued by the regulator. However, the company continues to follow the best practices on corporate governance.

A well-established corporate governance framework is implemented at PKIC supplemented by effectively functioning board and management level committees. There are a total of three Board level committees namely Board Audit Committee, Board Risk Management Committee and Board Executive Committee. Frequency of board and committee meetings, high attendance record and comprehensive discussion on various aspects of the company during the meetings demonstrates active oversight by the Board. Management team of the institution comprises seasoned professionals. During 2019, there was a change at the helm of the organization with appointment of Mr. Mubashar Maqbool as CEO. The institution maintains healthy stakeholder relations. Overall control environment of the institution is considered strong.

In line with the JVA, each sponsor nominates three directors on the Board. Given equal representation of the sponsoring governments and legal structure some of the practices that are considered favorable from a governance perspective may not be implemented. Board members carry diversified experience in investments, banking and oil and gas sector. Barring one director, all nominees have received Director's Training in line with best practices. The Board is overseeing matters of both strategic nature and also monitoring the performance of the company. Moreover, credit approval authority rests primarily with a Board committee, in view of which the responsibility for credit exposures rests both with the management and the Board.

Clear reporting lines are defined in the organogram. Barring Head of Internal Audit and Head of Risk Management, all departmental heads report to the Managing Director (MD). Head of Internal Audit and Head of Risk Management functionally report to their respective Board level committees. Mr. Maqbool was appointed as the company's new MD in March 2019. He carries more than three decades of experience in the banking sector. Fresh hiring has also been undertaken in various departments including compliance and corporate finance; hiring in the corporate finance department was primarily focused to revitalize marketing activities in the northern region of the country with portfolio planned to be increased in the coming months. The company has a defined succession plan in place, approved by the MD. Stability in the management team is considered essential from a rating perspective.

PKIC has made investments in various sectors including banking, mutual funds and corporate through its subsidiaries and associates. The largest investment on books is a 30% holding in Meezan Bank Limited (MBL), the largest Islamic Bank of Pakistan. Other associates of the company include Al Meezan Investment Management Limited (AMIML) and General Tyre and Rubber Company of Pakistan Limited (GTRC), a company involved in the manufacturing of automobile tyres and tubes. AMIML offers Shari'ah compliant investment products and is the largest private sector asset management company in terms of total Assets under Management (AUMs). Along with this, PKIC also has holding in one collective investment scheme managed by AMIML. PKIC also holds a stake in National Clearing Company of Pakistan Limited (NCCPL); providing clearing and settlement services to all three stock

**Profile of CEO**

*Mr. Mubashar Maqbool is the Managing Director of Pak Kuwait Investment Co, (Private) Limited, since March 12, 2019. He has acquired an MBA degree from University of Miami USA in Finance & International Business and MBA from Quaid-e-Azam University in Finance. He has a diversified track record in Corporate Banking, Corporate Finance, Project Financing, Commercial Banking, SME Banking as well as General Management. In a career spanning over thirty years, he held senior positions in renowned local and multinational organizations like Citigroup, Samba Financial Group, HBL, etc. both in Pakistan and abroad.*

exchanges in Pakistan. In order to comply with regulatory requirement PKIC intends to bring down its investment in NCCPL to 15%.

While core lending operations of the company have historically remained subdued, with the induction of a new CEO, growth pace of advances is expected to increase on the back of various project financing activities in the pipeline. Exposure of the company in government paper has also increased significantly on account of the rising interest rate scenario. While building its loan portfolio, management is also focusing on improving the concentration of this portfolio. Developments in this regard will be monitored over time. The company has maintained sound financial risk profile with no change in risk appetite communicated by the management. Fresh exposures are to be taken only in case of fundamentally sound projects. While gross infection levels increased during 9M19, infection levels on net basis remain negligible.

All information related to the company is disseminated in electronic form through official website. The company has implemented an Oracle ERP solution to support its core operations. Various modules of the Oracle ERP solution including Oracle Treasury, Oracle Siebel, Oracle Financials and Oracle Reveleus are implemented at PKIC. During 2019, the company upgraded its hardware installations and also acquired screening software for AML/CFT.

**Pakistan Kuwait Investment Company (Private) Limited**
**Appendix I**

<b>FINANCIAL SUMMARY</b>			
<i>(amounts in PKR millions)</i>			
<b>BALANCE SHEET</b>	<b>SEP 30, 2019</b>	<b>DEC 31, 2018</b>	<b>DEC 31, 2017</b>
Total Investments	37,398	25,815	22,923
Net Advances	2,430	2,698	3,167
Total Assets	42,710	29,977	29,129
Borrowings	11,346	1,372	2,562
Deposits & other accounts	-	35	3
Subordinated Loans	-	-	-
Paid up Capital	6,000	6,000	6,000
Net Worth	28,981	26,549	24,807
<b>INCOME STATEMENT</b>	<b>SEP 30, 2019</b>	<b>DEC 31, 2018</b>	<b>DEC 31, 2017</b>
Net Mark-up Income	912	862	637
Net Provisioning / (Reversal)	436	299	(64)
Non-Markup Income	3,412	3,534	2,403
Operating Expenses (Excluding WWF & Other Charges)	361	512	458
Profit (Loss) Before Tax	3,457	3,515	2,594
Profit (Loss) After Tax	2,784	2,768	1,850
<b>RATIO ANALYSIS</b>			
Gross Infection (%)	31.4	29.5	27.7
Provisioning Coverage (%)	96.2	96.2	96.3
Net Infection (%)	1.7	1.6	1.4
Debt Leverage (x)	0.47	0.13	0.17
Gearing (x)	0.39	0.05	0.10
Capital Adequacy Ratio (C.A.R (%))	43.7	42.6	41.3

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Appendix II**

<b>CGR 10</b> Highest level of corporate governance	<b>CGR 4, CGR 4+, CGR 4++</b> Moderately low level of corporate governance
<b>CGR 9, CGR 9+, CGR 9++</b> Very high level of corporate governance	<b>CGR 3, CGR 3+, CGR 3++</b> Low level of corporate governance
<b>CGR 8, CGR 8+, CGR 8++</b> High level of corporate governance	<b>CGR 2, CGR 2+, CGR 2++</b> Very low level of corporate governance
<b>CGR 7, CGR 7+, CGR 7++</b> Moderately high level corporate governance	<b>CGR 1, CGR 1+, CGR 1++</b> Lowest level of corporate governance
<b>CGR 6, CGR 6+, CGR 6++</b> Satisfactory level of corporate governance	
<b>CGR 5, CGR 5+, CGR 5++</b> Adequate level of corporate governance	

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**Governance Watch:** ‘Governance Watch’ may be assigned to highlight identifiable governance events that necessitate re-evaluation of the assigned rating. A ‘Governance Watch’ announcement means that the status of the assigned rating is uncertain and an event or deviation from an expected trend has occurred or is expected and additional information is necessary to take a rating action.

REGULATORY DISCLOSURES				Appendix III	
<b>Name of Rated Entity</b>	Pakistan Kuwait Investment Company (Private) Limited				
<b>Sector</b>	Development Finance Institution (DFI)				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Corporate Governance Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	1/15/2020	CGR-9	-	-	Reaffirmed
	01/25/2019	CGR-9	-	-	Reaffirmed
	12/29/2017	CGR-9	-	-	Reaffirmed
	12/14/2016	CGR-9	-	-	Reaffirmed
	12/23/2015	CGR 9	-	-	Reaffirmed
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on corporate governance only and is not a recommendation to buy or sell any securities.				
<b>Probability of Default</b>	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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<b>Due Diligence Meetings Conducted</b>		<b>Name</b>	<b>Designation</b>	<b>Meeting Date</b>	
	1	Mr. Mubashar Maqbool	Managing Director	Dec 5, 2019	
	2	Mr. Mohammed Naeem	Company Secretary	Dec 5, 2019	
	3	Mr. Naveed Sherwani	Head of Risk Management	Dec 5, 2019	
	4	Mr. Mazhar Sharif	Head of Internal Audit	Dec 5, 2019	
	5	Mr. Muhammad Hammad Anwar	Head of Human Resource & General Support & Services	Dec 5, 2019	
	6	Mr. Naveed Ahmed Khan Lodhi	Head of Compliance	Dec 5, 2019	