

CORPORATE GOVERNANCE REPORT

Pakistan Kuwait Investment Company (Private) Limited (PKIC)

REPORT DATE:

December 28, 2020

RATING ANALYSTS:

Narendar Shankar Lal

narendar.shankar@vis.com.pk

RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	Corporate Governance	Corporate Governance
Entity	CGR-9	CGR-9
Rating Date	Dec 28, 20	Jan 15, 20

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)

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/CGR-Methodology-201708.pdf>

Pakistan Kuwait Investment Company (Private) Limited

OVERVIEW OF THE INSTITUTION

PKIC was incorporated as a private limited company in 1979. The company's objective is to promote industrial investments in Pakistan. Registered office of the company is based in Karachi, while the company also has a representative office in Lahore.

Profile of Chairman

Mr. Abdullah Abdulwahab 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. Presently, he is serving 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).

Profile of CEO

Mr. Mubashar Maqbool is the Managing Director of Pak Kuwait Investment Co, (Private) Limited, since March 12, 2019. He is the

RATING RATIONALE

Pak Kuwait Investment Company (Private) Limited (PKIC) operates as a Development Finance Institution established under a Joint Venture Agreement (JVA) between the Government of Pakistan (GoP) and Government of Kuwait (GoK). Hence, 50% shareholding of the company is vested with State Bank of Pakistan, while the remaining 50% stake is held by Kuwait Investment Authority. PKIC is engaged in provision of corporate finance, advisory and investment banking services to companies operating in diverse sectors in Pakistan.

Given the Joint Venture Agreement (JVA) between the Government of Pakistan (GoP) and Government of Kuwait (GoK), Pakistan Kuwait Investment Company Ltd (PKIC) is exempted from the 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.

PKIC has implemented a well-established corporate governance framework which is supplemented by effectively functioning Board and Management Committees. The Board of Directors (BoD) comprises 6 members; three directors are nominated by each shareholder. No change has been witnessed in BoD composition since last review. All Board members are seasoned professionals possessing sound experience. Five BoD members are 'certified directors' in line with the best practices, while training of the remaining one BoD member has been scheduled in December 2020. An independent external evaluation of the BoD members is carried out every year for continuous improvement and refinement. The Board oversees matters of strategic nature and also monitors 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.

Three Board level committees namely Board Audit Committee, Board Risk Management Committee and Board Executive Committee are present at the Board level to oversee and review overall performance of the financial institution. No reconstitution of the Board Committees was observed during the period under review. High frequency of the Board and Board level Committees meetings, full attendance and comprehensive discussion on various aspects of the company during the meetings demonstrates active oversight by the Board. Despite the onset of COVID-19 during the review period, all the Board and Board Committee meetings were held in a timely manner through effective utilization of internet communication mediums.

Management team of PKIC comprises seasoned professionals. Management team is spearheaded by Mr. Mubashar Maqbool, who serves as the Managing Director (MD) of the institution. He carries more than three decades of experience in the banking sector. During the period under review, one change was observed in the senior management team. Mr. Samiullah Tariq was appointed as the Head of Research and Development in 2020. He possesses sound experience within respective domain. The institution maintains healthy stakeholder relations. Overall control environment of the institution is considered satisfactory. Clear reporting lines are defined in the organogram. Barring Head of Internal Audit and Chief Risk Officer, all the departmental heads report to MD. Head of Internal Audit and Chief Risk Officer functionally report to their respective Board level committees. The company has a defined succession plan in place. The succession plan identifies critical positions in the company and identifies a successor to the present resource in place. Overall employee turnover in the organization is considered low. Stability in the management team is considered essential from a rating

MBA 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.

perspective.

Annual financial statements and official website are the two key mediums utilized by management for communication with external stakeholders. The company utilizes these channels to disseminate public information, financial results, any material developments and various aspects of operations. 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 Revelus are implemented at PKIC. Latest software updates and acquisition of additional internet bandwidth capacity were the major developments during the ongoing year given the additional reliance on online connectivity on account of implementation of work from home arrangement due to COVID-19. All the data is replicated to the DR Site on a daily basis. PKIC has comprehensive Business Continuity Plan (BCP), which was triggered effectively once the lockdown was imposed in the country on account of COVID-19. Employees were provided all the requisite tools for work from home arrangements and the Rapid Portfolio Review of customers was also conducted to undertake effective actions in a timely manner.

Risk is managed through an Enterprise Risk Management framework, which includes establishment of risk tolerance limits, identification of potential risks & impact assessments and formulation of mitigation strategies while ensuring continuous monitoring. The Chief Risk Officer's plays a critical role in evaluating lending proposals, which helps in mitigating the credit risk. The weighted average ORR of the entire portfolio stood at 3.83 (2019: 3.83; 2018: 5.34) at end-Sep 2020.

PKIC has made investments in various sectors including banking, mutual funds and corporates through 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) (30%), National Clearing Company of Pakistan Limited (17.65%) and General Tyre and Rubber Company of Pakistan Limited (GTRC) (30%). AMIML offers Shari'ah compliant investment products and is the largest private sector asset management company in terms of total Assets under Management (AUMs). PKIC also has holding in one collective investment scheme managed by AMIML – Al Meezan Mutual Fund. GTRC is engaged in the manufacturing of automobile tyres and tubes. NCCPL provides clearing and settlement services to the stock exchange 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, but with the induction of a new CEO, financing portfolio has more than tripled in the period from end-December 2018 to end-September 2020. While building its loan portfolio, reducing concentration in the portfolio also remains a focus of the management. 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 undertaken only in case of fundamentally sound projects. Infection ratios have improved on a timeline basis. However, the impact of fresh lending on infection indicators materializes over a period of time. Hence, maintaining underwriting quality is considered essential.

Pakistan Kuwait Investment Company (Private) Limited
Appendix I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>	31-Dec-18	31-Dec-19	30-Sep-20
Total Investments	25,815	56,341	80,645
Net Advances	2,698	6,655	9,407
Total Assets	29,977	65,781	103,345
Borrowings	1,372	28,953	61,013
Deposits & other accounts	0	-	-
Subordinated Loans	-	-	-
Equity (excluding surplus)	26,382	30,703	35,002
Paid up Capital	6,000	10,000	10,000
Net Worth	26,549	33,535	36,839
<u>INCOME STATEMENT</u>	31-Dec-18	31-Dec-19	30-Sep-20
Net Mark-up Income	862	1,351	1,595
Net Provisioning / (Reversal)	299	451	733
Non-Markup Income	3,535	5,645	6,203
Operating Expenses	512	661	553
Profit (Loss) Before Tax	3,515	5,768	6,384
Profit (Loss) After Tax	2,768	4,743	5,103
<u>RATIO ANALYSIS</u>	31-Dec-18	31-Dec-19	30-Sep-20
Gross Infection (%)	29.5%	14.2%	10.2%
Provisioning Coverage (%)	96.2%	96.2%	96.1%
Net Infection (%)	1.6%	0.6%	0.4%
Efficiency	47.3%	41.2%	32.5%
Capital Adequacy Ratio (C.A.R (%))	42.6%	36.6%	34.9%
LCR	712.0%	1084.0%	131.0%
NSFR	134.0%	122.0%	116.0%

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

CGR 10
Highest level of corporate governance

CGR 4, CGR 4+, CGR 4++
Moderately low level of corporate governance

CGR 9, CGR 9+, CGR 9++
Very high level of corporate governance

CGR 3, CGR 3+, CGR 3++
Low level of corporate governance

CGR 8, CGR 8+, CGR 8++
High level of corporate governance

CGR 2, CGR 2+, CGR 2++
Very low level of corporate governance

CGR 7, CGR 7+, CGR 7++
Moderately high level corporate governance

CGR 1, CGR 1+, CGR 1++
Lowest level of corporate governance

CGR 6, CGR 6+, CGR 6++
Satisfactory level of corporate governance

CGR 5, CGR 5+, CGR 5++
Adequate level of corporate governance

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			
Name of Rated Entity	Pakistan Kuwait Investment Company (Private) Limited				
Sector	Development Finance Institution (DFI)				
Type of Relationship	Solicited				
Purpose of Rating	Corporate Governance Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: CORPORATE GOVERNANCE</u>				
	12/28/2020	CGR-9	-	-	Reaffirmed
	01/15/2020	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	
Instrument Structure	N/A				
Statement by the Rating Team	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.				
Probability of Default	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.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.				
	Copyright 2020 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
Due Diligence Meetings Conducted	S.No	Name	Designation	Date	
	1	Mr. Mohammed Naeem Sattar	Company Secretary	November 19, 2020	
	2	Mr. Naveed Sherwani	Chief Risk Officer	November 19, 2020	