

CORPORATE GOVERNANCE REPORT

Pakistan Kuwait Investment Company (Private) Limited

REPORT DATE:

December 28, 2021

RATING ANALYSTS:

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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	Corporate Governance	Corporate Governance
Entity	CGR-9+	CGR-9
Rating Date	Dec 28, '21	Dec 28, '20

COMPANY INFORMATION

Incorporated in 1979	External auditors: EY Ford Rhodes Chartered Accountants
Private Limited Company	Chairman of the Board: Mr. Mohammad A.M. Al-Fares (Since May 2021)
Key Shareholders (with stake 5% or more):	Managing Director: Mr. Mubashar Maqbool
Kuwait Investment Authority – 50%	
State Bank of Pakistan – 50%	

APPLICABLE METHODOLOGY(IES)

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

<https://docs.vis.com.pk/docs/CGR-Methodology-201708.pdf>

Pak Kuwait Investment Company (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

PKIC was incorporated as a private limited company in 1979. The respective shareholdings of the Governments of Kuwait and Pakistan in PKIC are held through the Kuwait Investment Authority 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 Government of Kuwait.

Profile of Chairman

Mr. Mohammad A.M. Al Fares has been appointed as the Chairman since May, 2021 and has over 17 years of experience within real estate sector. He is currently serving as an Investment Manager at KIA since 2014. He is also on the Board of ‘The Tuniso-Kuwaitian Company of El Emar’ as well as is the Head of its Board Audit Committee.

Profile of CEO

Mr. Mubashar Maqbool is the Managing Director of Pak Kuwait Investment Company (Private) Limited, since March 2019. He has over 30 years’ experience in both multinational and local banks and has vast experience in Corporate Banking, Corporate Finance, Project Financing, Commercial Banking, SME Banking as well as General Management.

Pak Kuwait Investment Company Limited (PKIC) was incorporated under the Joint Venture Agreement (JVA) between the Governments of Pakistan (GoP) and Kuwait. Shareholding of PKIC is equally vested between State Bank of Pakistan (SBP) and Kuwait Investment Authority (KIA). PKIC as a DFI is engaged in the provision of corporate finance, advisory and investment banking services. In line with the JVA, each sponsor nominates three directors on the Board.

Corporate Governance Framework

The assigned ratings incorporate a well-established governance framework at PKIC supplemented by effective functioning of board and management level committees. Active oversight by the board was ensured during 2020 and the ongoing year through comprehensive meetings held by the Board of Directors. Changes at the Board level were noted with replacement of two board members from KIA. Mr. Mohammad A.M. Al Fares was appointed as the new Chairman as well as one more nominee director was replaced with Mr. Jasem A. Al-Hajry, effective May’21. The Chairman brings with him over 17 years of experience within corporate sector especially in the real estate while Mr. Jasem A. Al-Hajry, works in the capacity of Investment Manager within KIA, specifically overseeing North American equities section. In addition, post term expiry of one of the GoP nominee directors, the position at present remains vacant and the board consists of 5 members with the position to be filled in by the GoP nomination in due course. All fit and proper procedures are adhered to before onboarding of directors. Periodic orientation of the Board members is conducted in addition to regular communication with the members apprising them of developments in the industry and Company. At present, there are three board level committees namely Audit, Risk Management and Executive Committee. The Board is overseeing matters of both strategic nature and also monitoring the performance of the Company. Board meetings deliberated on strategic planning, policy framework and policy revisions, internal controls, macro-economic developments, governance and control framework. Credit approval authority rests with Executive Committee with active involvement of risk management department. Management Committees are also in place, consisting of various group chiefs and mostly chaired by the Managing Director. These include Management Committee (MANCOM), Assets and Liabilities (ALCO), Compliance Committee of Management (CCM) and IT Steering Committee (ITSC). Meetings of Management Committees are held at regular intervals with record of high attendance, comprehensive deliberations and documentation of minutes. Remuneration of the Board was in line with the Corporate governance guidelines. Third party evaluation of Board was conducted which assessed performance of the Board on the higher end of the scale. .

Stability in management team is an important determinant, reflective of the strength of corporate governance framework. No turnover at senior management level was observed during the ongoing year. Employee turnover ratio has remained minimal within the organization. Management comprises of experienced professionals spearheaded by Mr. Mubashar Maqbool, a seasoned banker with 30 plus years of experience. PKIC also has a well-defined succession plan and clear reporting lines defined in the organogram. Barring Head of Internal Audit and Chief Risk Officer functionally report to their Board level Committees, all departmental heads report

to the Managing Director (MD) to maintain independence. PKIC engages its team members in regular training sessions within human resource development, information security risk and risk management exercises in a bid to enhance operational control framework. Development of human capital remains a top priority of the management.

Risk Governance

The emphasis in risk governance is placed on augmentation of risk management practices, continued enhancement of risk assessment models and monitoring systems. In line with PKIC risk management framework, Company carried out Rapid Portfolio Review to assess financial health of its borrowers and respective sectors of the economy mitigating risk arising on account of pandemic led uncertainty. In addition, the management has made concerted efforts to update and revise policies pertaining to several cadres of risk incorporating best practices, improve turnaround time and further strengthen the risk and control framework and got varying risk-based models validated externally. Revisions were made in Credit Proposal, risk rating models including Obligor Risk Rating (ORR) model, Information Security Policy and Risk Management Policy. Lately, the Company has developed Environmental Risk Rating model and incorporated green banking initiatives to promote and implement environmental compliance. The effectiveness of risk management systems and activities is periodically reviewed and appropriate changes are made as and when necessary, vigilant risk management practices are reflective in the Company's low infection levels. In addition, the Company acquired a specialized/advanced screening software for enhancing AML/CFT screening strengthening customer onboarding process.

On advances front; PKIC continued its growth objective with significant uptick witnessed in advances portfolio by end Sep'21 (9M21: Rs. 16.5b; 2020: Rs. 14.2b; 2019: Rs. 6.6b). The advances portfolio is diversified across different sectors. The non-performing loans exhibited minor decline during 2020 and stood unchanged at end Sep'21 (9M21: Rs. 1,065.3m; 2020: Rs. 1,065.3m; 2019: Rs. 1,092.3m). To further enhance capital adequacy levels, the Company increased its paid-up to Rs. 16b from Rs. 10b at end Sep'21.

PKIC investment portfolio increased to Rs. 111.4b (2020: Rs. 90.5b) at end 9M21. Around two-third of the investments are parked in government securities while remaining is primarily concentrated in Meezan Bank Limited. Other associates include Al Meezan Investment Management Limited and General Tyre and Rubber Company of Pakistan. PKIC also holds stake in National Clearing Company of Pakistan Limited (NCCPL). In order to comply with regulatory requirement PKIC streamlined its investment in NCCPL to 15% erstwhile at 17.5%. Recently, in line with PKIC mandate to invest in strategic sectors, the Company invested in Planet N (Private) Ltd to support new startups in the country. Going forward, management aims to continue to make investments in project financing, import substituting and export oriented industries.

Control framework

The Board has set up an effective internal risk function and established procedures to manage risk and oversee the internal control framework. Risk based audit is performed and every department undergoes audit once a year. The internal control systems ensures effectiveness and efficiency of operations and regulatory compliance. AML compliance and strengthening of onboarding process and ongoing monitoring remained a key focus area for the management. No major compliance lapse was reported. A small penalty was imposed in 2020 by SBP, the nature of which was not material.

Stakeholder Communication

All information related to the Company is disseminated in electronic form through official website. The Company posts annual, quarterly and half year financial statements with satisfactory levels of financial and qualitative disclosures.

Pak Kuwait Investment Company Limited (PKIC)
Appendix I

FINANCIAL SUMMARY (Amounts in PKR Million)			
BALANCE SHEET	31-Dec-19	31-Dec-20	30-Sep-21
Total Investments	56,341.1	90,458.9	111,442.1
Net Advances	6,654.6	14,256.8	16,589.7
Total Assets	65,780.7	106,825.6	131,084.9
Borrowings	28,953	62,152.9	82,345.4
Deposits & other accounts	-	2,820.0	1,560.0
Subordinated Loans	-	-	-
Equity (excluding surplus)	30,703	36,242.0	41,134.1
Paid up Capital	10,000.0	10,000.0	16,000.0
Net Worth	33,534.6	37,717.2	42,126.3
INCOME STATEMENT			
	31-Dec-19	31-Dec-20	30-Sep-21
Net Mark-up Income	1,350.7	2,090.6	1,698.4
Net Provisioning / (Reversal)	450.4	1,033.6	24.9
Non-Markup Income	5,644.6	7,884.5	6,636.6
Operating Expenses	660.5	966.7	1,031.7
Profit (Loss) Before Tax	5,768.0	7,818.1	7,135.6
Profit (Loss) After Tax	4,743.4	6,343.6	5,892.1
RATIO ANALYSIS			
	31-Dec-19	31-Dec-20	30-Sep-21
Gross Infection (%)	14.2%	6.8%	5.9%
Provisioning Coverage (%)	96.2%	124.3%	124.3%
Net Infection (%)	0%	0%	0%
Efficiency	41.2%	42.8%	54.4%
Capital Adequacy Ratio (C.A.R (%))	36.6%	34.0%	28.30%
LCR	1084.0%	207.0%	278%
NSFR	122.0%	114.0%	122%

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	Pak Kuwait Investment Company (Private) Limited				
Sector	Development Finance Institution (DFI)				
Type of Relationship	Solicited				
Purpose of Rating	Corporate Governance Rating				
Rating History		Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	12/28/2021	CGR-9+	-	-	Upgraded
	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.				
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Due Diligence Meeting(s) Conducted	Name	Designation		Date	
	Mr. Naeem Sattar	Company Secretary		Nov 25, 2021	
	Mr. Naveed Sherwani	Chief Risk Officer			
	Mr. Mubashar Maqbool	Managing Director			
	Mr. Mazhar Sharif	Head of Internal Audit			