CORPORATE GOVERNANCE REPORT

Pakistan Kuwait Investment Company (Private) Limited

REPORT DATE:
December 15, 2022

RATING ANALYSTS:

Asfia Aziz
asfia.aziz@vis.com.pk

Sundus Qureshi
sundus.qureshi@vis.com.pk

RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	**Corporate Governance**	**Corporate Governance**
Entity	CGR-9+	CGR-9+
Rating Date	*Dec 15, '22*	*Dec 28, '21*
Rating Action	*Reaffirmed*	*Upgrade*

COMPANY INFORMATION

Incorporated in 1979	**External auditors: A.F. Ferguson & Co. Chartered Accountants (a member firm of the PwC network)**
Private Limited Company	**Chairman of the Board**: Mr. Mohammad A.M. Al-Fares
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

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 (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 Government of Kuwait.

Profile of Chairman

Mr. Mohammad A.M. Al Fares has been appointed as the Chairman in 2021 and has over 17 years of experience within real estate sector. He is working with KIA since 2014 and currently serving as a Managing Director of M/s. Kuwaiti Egyptian Investment Company, S.A.E on behalf of KIA. He has also served on the Board of "The Tuniso-Kuwaitian Company of El Emar' and currently also serving on the Board of M/s Sudanese Kuwaiti Building & Construction Co. Ltd.

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

RATING RATIONALE

Pakistan Kuwait Investment Company (Private) 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. Key focus areas going forward are as follows:

- Project Financing and Investment Banking. Management expects some slowdown in project financing over the short-term due to subdued macroeconomic environment.
- Plans to attain a Digital Bank License, Islamic Finance Division and REIT license.
- Working to launch Private Equity / Venture Capital Funds to support local businesses.

Corporate Governance Framework

Ratings take into account 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 2021 and the ongoing year through comprehensive meetings held by the Board of Directors. There were no changes at the Board level in the outgoing year.

On the compliance front, all Directors on Board became fully certified in 2022. The GoP nominee director position at present remains vacant and the board consists of 5 members with the vacant 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. All board level committees have well defined objectives, scope and reporting procedures. Board meetings deliberations include 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.

No turnover at senior management level was observed during the ongoing year. Stability in management reflects strength of corporate governance framework. Similarly, employee turnover

Finance, Project Financing, Commercial Banking, SME Banking as well as General Management.

ratio has remained consistently on the lower side. 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. With the exception of Head of Internal Audit and Chief Risk Officer who functionally report to their Board level Committees, all departmental heads report to the Managing Director (MD) to maintain objectivity. 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. The same ensures that the newest members of the firm grasp the basics of the organization's dynamics and culture.

Risk Governance

Risk governance framework incorporates stringent application of risk management practices along with continued enhancement of risk assessment models and monitoring systems. In line with PKIC risk management framework, the management has made concerted efforts to update and revise policies at varying levels of risk incorporating best practices, improve turnaround time and further strengthen the risk and control framework. Risk Management has also updated its procedure manual in line with latest changes in policies and regulations. Regular timely changes were made in Credit Proposal format.

The Company has developed Environmental Risk Rating (ERR) model and incorporated green banking initiatives to promote and implement environmental compliance. Risk Management Department (RMD) has implemented state of the art Operational Risk Solution to improve reporting of operational risk incidents and conducted information security testing exercise (internal and external) to identify vulnerabilities in PKIC's IT infrastructure. Moreover, RMD has acquired Log management solution and Privilege Access Management solution to improve cyber security.

Furthermore, in continuation to the efforts made to further strengthen the implementation of International Financial Reporting Standard IFRS-9 in 2023, PKIC has developed their own Credit Conversion Factor (CCF) model and performed successful parallel run of IFRS-9 implementation with sufficient cushion in reserves available due to higher general provisioning.

Sound Financial Risk Profile

On advances front; PKIC continued its growth objective with significant uptick witnessed in advances portfolio at end-Sep'22 (9M22: Rs. 43.6b; 2021; Rs. 27.4b; 2020: Rs. 14.2b). The advances portfolio is diversified across different sectors. The non-performing loans were maintained during 2021 and stood unchanged at end-Sep'22 (9M22: Rs. 1,065.3m; 2021; Rs. 1,065.3m; 2020: Rs. 1,065.3m), hence gross infection improved to 2.4% (2021: 3.7%). With more than adequate provisioning coverage, net infection remained on the lower side at 0.1% (2021: 0.1%) at end-Sep'22. In addition, PKIC has made a cumulative general provision of Rs. 600m on prudent basis to protect the Company against any unforeseen economic events. Paid-up capital remained unchanged at end-Sept'22 at Rs. 16.0b (2021: Rs. 16.0b; 2020: Rs. 10.0b). With

consistent profit retention and stable dividend payout, net worth of the company increased to Rs. 46.4b (2021: Rs. 42.2b) at end-Sep'22.

PKIC investment portfolio increased to Rs. 448.9b (2021: Rs. 103.8b) at end 9M22. Around 90% of the exposure was parked in government securities with the remaining comprising exposure in associates (majority- Meezan Bank Limited). Other major 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). 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 Audit function and established procedures to manage risk and ensure the effectiveness of 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 in the review period. Further, no penalties were imposed on the company during the review period.

Stakeholder Communication

The Company posts annual, quarterly and half year financial statements with satisfactory levels of financial and qualitative disclosures. Further, a Monthly Performance Report is also submitted to the Board of Directors. All information related to the Company is disseminated in electronic form through official website. Disclosure and transparency of information disseminated is deemed adequate.

Pak Kuwait Investment Company Limited (PKIC) Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**31-Dec-19**	**31-Dec-20**	**31-Dec-21**	**30-Sep-22**
Total Investments	56,341.1	90,458.9	103,844.9	448,916.2
Net Advances	6,654.6	14,256.8	27,359.5	43,597.4
Total Assets	65,780.7	106,825.6	135,034.3	498,580.1
Borrowings	28,953.2	62,153.0	81,209.0	432,495.1
Deposits & other accounts	-	2,820.0	6,264.8	13,218.7
Subordinated Loans	-	-	-	-
Equity (excluding surplus)	30,703	36,242	43,126.7	49,013.4
Paid up Capital	10,000.0	10,000.0	16,000.0	16,000.0
Net Worth	33,534.6	37,717.2	42,184.3	46,384.4
INCOME STATEMENT	**31-Dec-19**	**31-Dec-20**	**31-Dec-21**	**30-Sep-22**
Net Mark-up Income	1,350.7	2,090.6	2,260.8	1,393.3
Net Provisioning / (Reversal)	450.4	1,033.6	364.2	690.1
Non-Markup Income	5,644.6	7,884.5	9,266.4	9,320.7
Operating Expenses	660.5	966.7	1,464.5	1,113.4
Profit (Loss) Before Tax	5,768.0	7,818.1	9,508.4	8,735.8
Profit (Loss) After Tax	4,743.4	6,343.6	7,882.4	6,967.3
RATIO ANALYSIS	**31-Dec-19**	**31-Dec-20**	**31-Dec-21**	**30-Sep-22**
Gross Infection (%)	14.2%	6.8%	3.7%	2.4%
Provisioning Coverage (%)	96.2%	124.3%	152.5%	152.5%
Net Infection (%)	0.6%	0.3%	0.1%	0.1%
Efficiency	41.2%	42.8%	57.9%	65.0%
Capital Adequacy Ratio (C.A.R (%))	36.6%	34.0%	24.47%	21.48%
LCR	1084.0%	207.0%	170%	142%
NSFR	122.0%	114.0%	113%	91%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

CGR 10
Highest level of corporate governance

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

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

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

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

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

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

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

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

CGR 1, CGR 1+, CGR 1++
Lowest 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

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY			
12/15/2022	CGR-9+	-	-	Reaffirmed
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.
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Due Diligence Meeting(s) Conducted

Name	Designation	Date
Mr. Mubashar Maqbool	Managing Director	
Mr. Naeem Sattar	Company Secretary	Oct 28, 2022
Mr. Umair Aijaz	Group Head – CIBG	
Mr. Naveed Sherwani	Chief Risk Officer	
Mr. Mazhar Sharif	Head of Internal Audit	