

CORPORATE GOVERNANCE REPORT

Pakistan Kuwait Investment Company (Private) Limited

REPORT DATE:

November 30, 2023

RATING ANALYSTS:

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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	Corporate Governance	Corporate Governance
Entity	CGR-9+	CGR-9+
Rating Action	Reaffirmed	Reaffirmed
Rating Date	Nov 30, '23	Dec 15, '22

COMPANY INFORMATION

Incorporated in 1979	External auditors: M/s. A.F. Ferguson & Co. Chartered Accountants
Private Limited Company	Chairman of the Board: Mr. Mohammad A. M. Al-Fares
Key Shareholders (with stake 5% or more):	Managing Director: Mr. Saad Ur Rahman Khan (July 2023)
Kuwait Investment Authority – 50%	
State Bank of Pakistan – 50%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporate Governance Ratings (October 2023)
<https://docs.vis.com.pk/docs/CoporateGovernance-2023.pdf>

VIS Rating Scale
<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Pakistan 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 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 18 years of experience within real estate sector. He is currently serving as Managing Director of M/s. Kuwaiti Egyptian Investment Company, S.A.E and on the Board of M/s. Sudanese Kuwaiti Building & Construction Co. Ltd.

Profile of CEO

Mr. Saad Ur Rahman has been appointed as the Managing Director since July, 2023. He has an extensive banking career spanning more than three decades in the area of Retail, Trade, SME, Commercial, Corporate, Investment Banking, Financial Institution, International Banking and Risk Management. He is a graduate of Institute of Business Administration (IBA).

RATING RATIONALE

Pakistan Kuwait Investment Company (Private) Limited ('PKIC' or 'DFI') was incorporated under the Joint Venture (JV) Agreement 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 Development Finance Institution (DFI) is engaged in the provision of corporate finance, advisory and investment banking services. In line with the JV, each sponsor nominates three directors on the Board.

Corporate Governance Framework

The assigned ratings reflect PKIC's well-established governance framework, complemented by the effective operation of Board and management-level committees. The Board plays a pivotal role in overseeing both strategic matters and monitoring the DFI's performance. There were two changes in the Board composition during the ongoing year. Mr. Saad Ur Rahman Khan was appointed as the Managing Director (MD), replacing Mr. Mubashar Maqbool, and Mr. Mansoor Masood Khan was appointed to fill the vacancy for the GoP nominee position. These new appointees are expected to complete the Director's Training Certification under the Directors' Training Program as prescribed by SECP within a period of one year of their respective appointments. All other directors have completed the training and are fully certified. Periodic orientation sessions for Board members are conducted, and regular communication keeps members informed about industry developments and DFI updates. Board remuneration aligns with corporate governance guidelines. In 2022, the Board's self-evaluation was carried out through M/s. Pakistan Institute of Corporate Governance (PICG). The evaluation assessed performance both as a Board as well as at the individual Director level, and covered Board Composition, Strategic Planning, Board & CEO Effectiveness, Board Information, Board Committees, Board Procedures and the Control Environment.

At present, there are four Board-level committees in place: the Audit Committee (AC), the Risk Management Committee (RMC), Executive Committee (EC) and Human Resource and Remuneration Committee (HR&RC). 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. The EC holds the credit approval authority. The Board has complied with the requirements of the Act and the Regulations with respect to frequency, recording and circulating minutes of meeting of the Board. Management committees are also operational, led by various group heads and predominantly chaired by the Managing Director. These committees include the Management Committee (MANCOM), Assets and Liabilities Committee (ALCO), Compliance Committee of Management (CCM), and IT Steering Committee (ITSC). The management committees were convened at regular intervals, with high attendance, thorough deliberations, and documentation of meeting minutes.

The stability of the management team serves as an important indicator, reflecting the strength of the corporate governance framework. Notably, there were no changes in senior management positions during the review period, demonstrating a consistent leadership core. Employee turnover within the organization has been minimal. The management team comprises seasoned professionals who bring valuable expertise to the table. PKIC has also established a well-defined succession plan, ensuring a smooth transition of roles, and the organizational structure, as depicted in the organogram, outlines clear reporting lines.

In the review period, organogram was updated to incorporate Shariah Advisor (SA) who reports directly to the Board of Directors. With the exception of the Head of Internal Audit and the Chief Risk Officer, who functionally report to their respective Board level Committees, all other departmental heads maintain a direct reporting line to the MD.

Risk Governance

Risk governance places a strong emphasis on enhancing risk management practices, continuously improving risk assessment models and monitoring systems. Credit risk is effectively managed in accordance with Board-approved policies, the utilization of internal risk ratings, mandated documentation requirements, and an ongoing credit facility monitoring. A robust credit approval process is in place to secure the booking of high-quality assets. Furthermore, PKIC diligently assesses and documents the environmental risk associated with borrowers, aligning with the Green Banking Guidelines stipulated by the SBP. The overall guidance in navigating PKIC's diverse risk landscape, particularly credit risk, is provided by the Risk Management Committee of the Board.

Market and Liquidity Risk with contingency funding plan are managed by the Asset & Liability Committee (ALCO). Following the PKIC risk management framework, the DFI has developed a range of tools and strategies to measure and mitigate risks. These include Value at Risk (VaR), Duration, Maturity gaps, Re-pricing Gaps, and stress tests based on internally developed scenarios. Moreover, PKIC has conducted a Rapid Portfolio Review to assess the financial health of its borrowers and the sectors they operate in, effectively mitigating risks stemming from high inflation and economic uncertainties.

Operational risk framework is fully implemented in line with regulatory standards. All recommended tools for e.g. Operational loss data, Key Risk Indicators and Risk Control Self-Assessment are fully implemented. During the year, PKIC adopted an advanced operational risk management solution known as the "Risk Nucleus." Business continuity is effectively managed through an approved Business Continuity Plan (BCP), ensuring the smooth performance of all business and operational activities throughout the year. Information security risks are actively assessed and monitored through regular training for all team members, enabling the timely identification of potential risks.

The management has been proactive in updating and revising various policies, including the Credit Policy, Internal Risk Rating Policy, Information Security Policy, and Internal Control System & Audit Policy. After conducting parallel run, covering PD, LGD and ECL models and conducting an impact assessment following SBP's guidance, PKIC has successfully implemented IFRS-9 to meet SBP's regulatory requirement. Accordingly, both annual and interim financial statements for the current year are being prepared as per the format prescribed by SBP.

Financial Risk Profile

In pursuit of its growth objectives, PKIC has demonstrated an upward trajectory in its advances portfolio, culminating in an increase by the end of Sept'23, reaching Rs. 50.7b (2022: Rs. 49.6b; 2021: Rs. 27.4b). The advances portfolio is thoughtfully diversified across various sectors. Furthermore, non-performing loans (NPL) has witnessed a decline, with the outstanding amount reducing to Rs. 830m as of Sept'23 (2022: Rs. 1.0b). These NPLs are fully provided by PKIC.

PKIC's investment portfolio exhibited substantial growth, reaching a total of Rs. 1,297b (2022: Rs. 724.3) by the end of Sept'23. A significant portion of this investment portfolio, accounting for more than 95%, is allocated to government securities. The remaining portion is primarily concentrated in Meezan Bank Limited and other associates. The paid-up capital has remained consistent and unchanged, standing at Rs. 16.0b at the end of Sept'23. The Capital Adequacy Ratio (CAR) has remained persistently higher than the regulatory requirement, reflecting a strong capability to maintain financial stability, manage risks effectively, and protect the interests of its stakeholders.

Control framework

The Board has set up an effective internal audit function / team who are considered suitability qualified and experienced for the purpose and are conversant with the policies and procedures of the DFI. Risk based audit is performed and every department undergoes audit once a year. Acknowledging the continuous nature of the process, the DFI's management has embraced the globally recognized COSO Framework for Internal Control, aligning with the SBP's guidelines on internal controls. The management maintains the effectiveness of internal control over financial reporting by consistently reviewing and updating relevant policies and procedures, establishing appropriate control measures, and conducting internal control tests. Additionally, the management holds the view that the DFI's internal controls for financial reporting are well-conceived in design and have been successfully executed and overseen.

In accordance with the SBP directives, the DFI completed all the seven stages of ICFR roadmap and has been submitting to the SBP periodically, the Long Form Report (LFR) issued by the statutory auditors since 2009. 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.

Digital Banking

In pursuit of advancing innovation, promoting financial inclusion, and enhancing the accessibility of affordable digital financial services, SBP has accorded In-Principle Approval (IPA) for the establishment of five digital retail banks. PKIC led consortium was awarded the license to set up first Shariah Compliant Digital Retail Bank, M/s. Raqami Islamic Digital Bank Limited (RIDBL). PKIC has partnered with M/s. Enertech Holding Company KSC, a subsidiary company of Kuwait Investment Authority and Planet N Private ltd to set up this Bank. It may be recalled that SBP issued NOCs to five successful applicants for the establishment of digital banks in Pakistan in January 2023. Following the fulfillment of requisite criteria, these entities have now received in-principle approval, allowing them to prepare operationally for the launch of digital financial services.

RIDBL has been duly incorporated as an Islamic Digital bank, and PKIC is actively engaged in completing post-incorporation activities. Additionally, the DFI has injected capital amounting to Rs. 6.75m, resulting in the issuance of 675,000 shares, constituting 67.5% of the shareholder stake. This initiative is poised to play a pivotal role in advancing technology-driven financial services, with a specific focus on benefiting Small and Medium Enterprises (SMEs), agricultural sector, and promoting financial inclusion among the unbanked population. Notably, RIDBL also plan to focus on fostering women's financial inclusion and economic empowerment. Furthermore, it aspires to extend its banking services to underbanked and unbanked regions

throughout Pakistan, addressing areas traditionally underserved by conventional banking systems.

Islamic Finance Division (IFD)

In recognition of the expanding potential of Islamic Banking in Pakistan, PKIC has opted to establish a specialized Shariah-compliant Islamic Finance Division (IFD). Having secured in-principle approval from SBP, PKIC is in the process of aligning its operations to inaugurate the business activities of its dedicated Shariah-compliant IFD. Upon receiving the final permission letter from SBP, PKIC IFD is poised to offer a diverse array of financial products and services in adherence to Shariah principles, catering to the distinctive needs of its clientele.

Stakeholder Communication

The DFI maintains adequate levels of communication with its stakeholders through Annual Report, quarterly and half yearly published financial statements on its website. The financial and qualitative disclosures in the public domain are considered comprehensive and in line with the industry practices. Annual Report is fairly descriptive and contains adequate disclosures. As an equal opportunity employer, PKIC improved workforce gender diversity through hiring merit based diverse workforce (gender and age) and closed all positions in-house and in record time; increased gender diversity from female proportion of 11% in 2018 to 22% in 2022, with inclusion of women in leadership roles. Over the review period, PKIC experienced exceptional performance not only in its financial metrics but also made substantial contributions to the advancement of green/environmentally friendly banking, gender diversity, and social impact through its philanthropic endeavors.

REGULATORY DISCLOSURES		Appendix I			
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				
	11/30/2023	CGR-9+	-	-	Reaffirmed
	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.				
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	24 October 2023		
	Mr. Naveed Iftikhar Sherwani	Chief Risk Officer			