

## CORPORATE GOVERNANCE REPORT

### Pakistan Kuwait Investment Company (Private) Limited

**REPORT DATE:**

December 13, 2024

**RATING ANALYSTS:**

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#### RATING DETAILS

	Latest Rating	Previous Rating
<b>Rating Category</b>	Corporate Governance	Corporate Governance
<b>Entity</b>	CGR-9+	CGR-9+
<b>Rating Action</b>	Reaffirmed	Reaffirmed
<b>Rating Date</b>	Dec 13, '24	Nov 30, '23

#### COMPANY INFORMATION

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

#### APPLICABLE METHODOLOGY(IES)

**VIS Entity Rating Criteria: Corporate Governance Ratings**

<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 19 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 established as a joint venture between the Government of Pakistan and State of Kuwait, with the objective of financing economically viable and technically feasible projects in Pakistan. PKIC's shareholding is equally divided between the State Bank of Pakistan (SBP) and the Kuwait Investment Authority (KIA). The DFI, engaged in investment and development banking activities, plays a significant role in promoting industrial activity through equity and debt investments in key economic sectors.

**Corporate Governance Framework**

The assigned ratings reflect PKIC's well-established governance framework and the effective functioning of both Board and management-level committees. The Board is instrumental in overseeing strategic issues and monitoring performance of the DFI. During 2023, there were two changes in the Board composition: Mr. Saad Ur Rahman Khan was appointed as the Managing Director, succeeding Mr. Mubashar Maqbool, and Mr. Mansoor Masood Khan was appointed as nominee of the Government of Pakistan (GoP). No changes were noticed during the ongoing year. All directors have completed the requisite Training Certification under the Directors' Training Program of the SECP within one year of their appointments.

The Board conducts periodic orientation sessions and maintains regular communication to keep the members updated on industry developments and DFI matters. Board remuneration adheres to SECP corporate governance guidelines. During 2023, the Board opted for an in-house approach to evaluate itself and its committees through the Corporate Affairs Function. The same approach will be followed for the ongoing year, 2024. The evaluation covered aspects such as Board composition, strategic planning, Board and CEO effectiveness, Board information, Board committees' performance, procedures, and the control environment. The next external independent review of the Board is scheduled for 2025, in accordance with SBP guidelines.

At present, four Board-level committees are 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 circulation of the 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). Mr.

Imran Saeed, Head of Islamic Finance Division (IFD) was added as a new member in ALCO, CCM, and ITSC in the review period. The management committees' meetings were convened at regular intervals, with satisfactory attendance, and thorough deliberations as well as, proper documentation of meeting minutes.

The stability and experience of the management team serves as an important indicator, reflecting the strength of the corporate governance framework. Employee turnover within the organization has been minimal during 2023 and ongoing year. 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. Also, the organizational structure, as depicted in the organogram, outlines clear reporting lines. The succession planning process, aligned with the human resource policy on career planning and succession, is overseen and approved by the Managing Director and the Group Head of Human Resources.

While the Shariah Advisor (SA) reports directly to the Board of Directors, all other departmental heads maintain a direct reporting line to the MD, with the exception of the Head of Internal Audit and the Chief Risk Officer, who functionally report to their respective Board level Committees.

### **Shariah Governance**

During 2023, PKIC-Islamic Finance Division (PKIC-IFD) was in the process of obtaining a license from the State Bank of Pakistan (SBP) to commence Islamic finance operations, which was granted on December 20, 2023. During this period, the Shariah Compliance Function of PKIC-IFD reviewed and developed various key documents, including policies, product programs, procedure manuals, service level agreements, and legal agreements. These documents were formulated in accordance with Shariah rules and principles under the guidance of the Shariah Advisor. The policies were also aligned with the directives, regulations, instructions, and guidelines on Shariah compliance issued by SBP.

PKIC-IFD is ensuring a comprehensive Shariah governance framework in its operations. A well-documented mechanism is in place to ensure Shariah compliance across all activities of PKIC-IFD, including policies addressing earnings from prohibited sources, which are credited to a charity account for proper utilization. The DFI implements SBP's instructions on profit and loss distribution and pool management in its policies. Efforts are ongoing to build awareness and capacity among staff, management, and the Board of Directors regarding the importance of Shariah compliance, with internal and external training sessions conducted regularly. The Shariah Advisor is provided with adequate resources to effectively discharge assigned responsibilities.

The PKIC-IFD has also commenced operations, offering a diverse range of financial products and services developed by a team of qualified professionals. These offerings are

fully compliant with the Shariah principles and are designed to meet the specific needs of PKIC's clientele.

### **Risk Governance Framework**

PKIC focuses on risk governance by improving risk management practices, assessment models, and monitoring systems. The DFI has a risk management framework in place, overseen by the Board of Directors, which is responsible for setting the strategic direction and ensuring the framework's effectiveness. The Board is supported by committees like the Risk Management Committee (RMC) and the Audit Committee (BAC). Various senior management committees oversee risk management strategies, initiatives, and processes.

PKIC uses the 'Three Lines of Defense' model to manage risks, with each line having specific roles. Business lines form the first line of defense, managing risks in day-to-day operations. The second line, comprising risk management and control functions, assists the business lines in designing and implementing risk management systems and procedures. The third line of defense, internal audit, provides independent assurance on the effectiveness of these controls.

Credit risk is managed through Board-approved policies, internal risk ratings, required documentation, and continuous monitoring of credit facilities. A structured credit approval process ensures the booking of quality assets. PKIC also assesses and documents environmental risks associated with the borrowers, in line with the Green Banking Guidelines set by the SBP. The RMC provides guidance in managing PKIC's various risks, with particular focus on credit risk.

Market and liquidity risks, along with a contingency funding plan, are managed by the Asset & Liability Committee (ALCO). Following its risk management framework, the DFI has developed tools and strategies to measure and mitigate risks, including Value at Risk (VaR), duration, maturity gaps, re-pricing gaps, and stress tests based on internally developed models. PKIC has risk policies with action plans to strengthen the market risk management systems, and the treasury middle office function is designed to monitor limit adherence.

The operational risk framework is implemented in line with regulatory standards. Tools such as operational loss data, key risk indicators, and risk control self-assessment are used. PKIC maintains business continuity with an approved business continuity plan (BCP), and all business and operational activities are conducted effectively throughout the year. Information security risks are assessed and monitored through approved policies. Moreover, regular trainings are provided to all team members, enabling timely identification of risks.

Management has updated and revised policies, including the Credit Policy, Internal Risk Rating Policy, Information Security Policy, and Internal Control System & Audit Policy. Following a parallel run of the PD, LGD, and ECL models and an impact assessment in

accordance with SBP's guidance, PKIC adopted IFRS 9 effective January 1, 2023, to meet SBP's regulatory requirements. Consequently, annual and interim financial statements for the current year are prepared according to the instructions issued by SBP.

### **Internal Controls framework**

The DFI adheres to the SBP's Internal Control Guidelines, with management responsible for establishing and maintaining an effective internal control environment. This includes components such as Control systems, Risk Assessment tools and techniques, Control Activities, Information, Communication, and Monitoring policies. Management ensures effectiveness by setting control objectives, reviewing and updating policies and procedures, and implementing necessary amendments. Regular tests of transactions, observation of the control environment, and follow-up actions are conducted to address the gaps. The internal control system in the DFI is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, not absolute, assurance against material misstatement or loss.

In 2023 and ongoing year, the DFI maintained effective Internal Control Systems, necessary control procedures, and appropriate control environment as per approved policies. The internal control system, customer services, and operations have been consistent with previous levels, with efforts to improve employee skills. PKIC adopted the COSO Framework and follows SBP guidelines for internal controls, regularly reviewing and updating policies, and testing controls. Management continuously monitors and addresses gaps, having completed all seven stages of the ICFR roadmap as per SBP directives, and a Long Form Report (LFR) on the same is also issued regularly by the statutory auditors since 2009.

### **Digital Banking**

PKIC in partnership with the Kuwait Investment Authority through its subsidiary, M/s. Enertech Holding Company KSC, has launched Pakistan's first Shariah-compliant digital banking venture, Raqami Islamic Digital Bank Limited (RIDBL). PKIC has 72.94% shareholding in the RIDBL. This venture marks a significant advancement in the financial sector by integrating Islamic finance principles with modern digital technology. With the SBP's In-Principal approval secured, RIDBL is moving forward to achieve operational readiness. The bank seeks to transform the financial landscape in Pakistan by focusing on technology-driven financial services catering to SMEs, agricultural sectors, and the financial inclusion of unbanked population, with a particular emphasis on women.

The DFI is currently completing post-incorporation activities and working towards full operational readiness for RIDBL.

**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. The Annual Report is fairly descriptive and contains adequate disclosures. PKIC has been recognized for its commitment to inclusivity and employee well-being.

**Social Impact**

The DFI received the 'Gender Diversity at Workplace Award' for promoting equal opportunities and was named the "Best Small Company to Work" for its supportive environment. These awards highlight PKIC's efforts to maintain a diverse and positive workplace culture. Additionally, PKIC demonstrates its commitment to corporate social responsibility by actively contributing to community enrichment beyond its financial activities. Focusing on healthcare, PKIC supports various NGOs to enhance community well-being. Additionally, PKIC sponsors educational initiatives, recognizing the role of education in driving societal growth and development.

**Financial Risk Profile**

In pursuit of its growth objectives, PKIC has shown a positive trend in its advance's portfolio, which increased to PKR 56.1 bn by the end of Jun'24 (Dec'23: PKR 53.8 bn; Dec'22: PKR 49.6 bn). This portfolio is well-diversified across various sectors. Additionally, non-performing loans (NPLs) have decreased, with the outstanding amount falling to PKR 744.9 mn as of Jun'24 (Dec'23: PKR 823.0 mn).

PKIC's investment portfolio totaled PKR 910.6 bn by the end of Jun'24 (Dec'23: PKR 988.4 bn), largely due to a reduction in the value of government securities recognized at FVOCI. Despite this decrease, 98.5% of the investment portfolio remained invested in government securities as of Jun'24 (Dec'23: 98.4%). The remainder is primarily invested in the Meezan Bank Limited and other associates, including the subsidiary RIDBL. The paid-up capital remained stable at PKR 16.0 bn at the end of Jun'24. The Capital Adequacy Ratio (CAR) continues to be above the regulatory requirement, reflecting strong financial stability, effective risk management, and protection of stakeholder interests.

**Pakistan Kuwait Investment Company (Pvt.) Limited**

REGULATORY DISCLOSURES		Appendix I				
<b>Name of Rated Entity</b>	Pak 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>Outlook/Rating Watch</b>	<b>Rating Action</b>	
	<b>RATING TYPE: ENTITY</b>					
	12/13/2024	CGR-9+	-	-	Reaffirmed	
	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		
<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 Meeting(s) Conducted</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>			
	<b>1. Mr. Naeem Sattar</b>	Company Secretary	20 <sup>th</sup> November, 2024			
	<b>2. Mr. Naveed Iftikhar Sherwani</b>	Chief Risk Officer				