The Pakistan Credit Rating Agency Limited

Rating Report

Pakistan Kuwait Investment Company (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Jun-2024	AAA	A1+	Stable	Maintain	-
26-Jun-2023	AAA	A1+	Stable	Maintain	-
29-Jun-2022	AAA	A1+	Stable	Maintain	-
29-Jun-2021	AAA	A1+	Stable	Maintain	-
29-Jun-2020	AAA	A1+	Stable	Maintain	-
21-Dec-2019	AAA	A1+	Stable	Maintain	-
21-Jun-2019	AAA	A1+	Stable	Maintain	-
28-Dec-2018	AAA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Pakistan Kuwait Investment Company (Pvt.) Limited ("the Company" or "PKIC") is the leading Development Financial Institution (DFI) in the country. The primary purpose of Development Financial Institutions (DFIs) is social uplift by executing commercially viable projects. PKIC has achieved a pivotal milestone by launching a new business avenue in Islamic Finance to provide a diverse array of Sharia-compliant financial products. PKIC has received in-principle approval for establishing an Islamic digital bank; Raqami Islamic Digital Bank Limited (RIDBL). PKIC has a controlling equity stake of ~72.9%. It is expected to transform the banking landscape of the country. The rating takes comfort from the Company's strategic investment in the leading Islamic Bank of Pakistan; Meezan Bank Limited. The dividend income of -PKR8.3bln from associates has significantly bolstered the company's profitability to PKR l0bln in CY23. The company has a robust liquidity framework; given the prevailing interest rate environment, PKIC leveraged its strength to make money through treasury operations. The year 2023 was phenomenal in this respect. However, the downward trajectory and especially the evaporated margins have lately made this avenue slightly unattractive. There is a strategic shift towards investments in floater rate PIBs and maturity of T-bills to reduce interest rate risk and maintain net interest margins. During 1QCY24, a compression in NIMs is observed mainly on stagnant policy rates despite the downward trend in the secondary market yields. In CY23, the corporate finance portfolio of the Company stood at PKR 62.8bln and was disbursed to well-established and stable entities. This can also be witnessed by the minimal number of watch-list accounts and an infection ratio of 1.5% in CY23, with NPLs at PKR 809.2mln. The company is equipped with credit risk model that segregates sector-wise and borrower-wise risk tagging to improve asset quality. The asset base of the Company achieved new heights and cross the trillion mark to stand at PKR 1.08 trillion in CY23, compared to PKR 765bln at the end of last year. The OMO facility is the Company’s primary source of funding, while the contribution of COIs remains minimal within the funding base. The company maintained a substantial equity base of PKR 34.3bln and CAR of 39.1% beefing up the risk absorption capacity. The board of PKIC serves in an advisory capacity with the delegation of authority vested in their highly qualified and professional management team. The Central Bank maintained a tight monetary policy stance to combat inflation and curb aggregate demand. The market portrays an inverted yield trend and recent -1.5% cut is a reflection of it.

The ratings are dependent on the management's ability to sustain its financial profile while managing the associated risks. The impact of new ventures and strategic investment on the business sustainability and profitability matrix of the Company remains critical. Management's efforts to diversify its operations, and find a new niche for growth, while sustaining its profitability supplement the assigned rating.

Disclosure

Name of Rated Entity	Pakistan Kuwait Investment Company (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Financial Institution Rating(Oct-23),Methodology | Rating Modifiers(Apr-24)
Related Research	Sector Study | DFIs(Jun-23)
Rating Analysts	Muhammad Harris Ghaffar | harris.ghaffar@pacra.com | +92-42-35869504

Profile

Structure Pakistan Kuwait Investment Company (Private) Limited was established in March 1979 as a joint venture between the Governments of Pakistan (GoP) and Kuwait. It is equally owned by GoP through the State Bank of Pakistan (SBP) and the Government of Kuwait through the Kuwait Investment Authority (KIA), representing their respective governments.

Background The Kuwait Investment Authority (KIA), an investment arm of the Government of Kuwait working under the Ministry of Finance, was established in 1982 as an independent legal entity

Operations The objective of the company is to promote industrial investment in Pakistan profitably. PKIC has been following a growth-based strategy in recent years with respect to advances and investment. Consequently, it has developed a good and diversified portfolio of advances, strategic, and equity investments.

Ownership

Ownership Structure It is equally owned by GoP through the State Bank of Pakistan (SBP) and the Government of Kuwait through the Kuwait Investment Authority (KIA), representing their respective governments

Stability The ownership structure has remained the same since the inception of the Company. It is likely to stay the same in the foreseeable future.

Business Acumen The business acumen of sovereign sponsors is considered strong.

Financial Strength The financial muscle of both sovereign sponsors is very strong.

Governance

Board Structure The overall control of the company vests with a six-member board (BoD), having equal representation from both governments. The board's Chairman is a representative of KIA, whereas the Managing Director is representative of Govt. of Pakistan

Members' Profile The BoD members have extensive experience in finance and investment management. This helps provide valuable insight into managing investments and guide management in developing effective risk management policies and procedures

Board Effectiveness The Board has formulated four committees, namely Audit Committee, Executive Committee, Human Resource and Remuneration Committee, and Risk Management Committee, to ensure smooth and effective operations monitoring

Financial Transparency A.F Ferguson and Co, Chartered Accountants, was the company's external auditors. They have given an unqualified opinion on the financials for the year ended December 31, 2023. The company has an in-house internal audit department.

Management

Organizational Structure Pak Kuwait has an aligned organizational structure for operational efficiency. The company's main functions are classified as Risk Management, Compliance, Corporate and Investment Banking, Capital Market and Treasury, Finance, Internal Audit, and Human Resource and General Support Services.

Management Team The Company's management team comprises well-qualified and experienced individuals, who have long association with the company. Mr. Saad Ur Rahman Khan has joined as Managing director in place of Mr. Mubashar Maqbool in July 2023, Pak Kuwait's MD, has diversified experience in Corporate, Commercial, Investment Banking, and Risk Management.

Effectiveness Pak Kuwait's complete operational set-up falls under the purview of the Managing Director. All department heads directly report to him, except for the Head of Internal Audit; who reports to the Board Audit Committee, and the Chief Risk Officer, who reports to the Risk Management Committee of the board.

MIS The department heads monitor the performance of their departments on a daily basis through different MIS reports generated through the system. They report the performance of their respective departments to the CEO on a periodic basis

Risk Management Framework Pak-Kuwait has developed and implemented various models and manuals to minimize company-wide risks. The Risk Management Department comprehensively covers the development of measurement tools/models (e.g. Obligor Risk Rating (ORR), Facility Risk Rating (FRR), CAMEL rating model, stress testing, Environmental Risk Rating (ERR) Model and ECL Model), the establishment of credit and market risk limits, and formulation of policies and procedural manuals related to the overall risk management

Business Risk

Industry Dynamics CY23 was a remarkably successful year for the banking/DFI industry. The sector outperformed historical statistics, as the majority of the net mark-up income emanates from investment in government securities and the minute portion contributed by income from advances. During CY23, the DFI sector's total asset base stood at PKR 2.3trn (CY22: PKR 1.4trn) and investment book at PKR 2.02trn in CY23 (CY22: PKR 1.2trn). The advances book stood at PKR 188.2bln as of CY23 (CY22: PKR 188.1bln). The market anticipates an inverted yield trend and a recent ~1.5% cut in the policy rate is a reflection of this. In the upcoming quarters, if the downward yield trend persists then it might result in a strategic shift in the DFIs investment book.

Relative Position During CY23, the market share in terms of advances recorded a marginal increase of 29% (CY22: 27%). The market share of the company's investment also stood at 49% (CY22: 57.4%). On the deposit side, PKIC has performed well and clocked at PKR 19.3bln in CY23 (CY22: PKR 13.7bln)

Revenues During CY23, markup earned witnessed a substantial increase to PKR 236.7bln (CY22: PKR43.1bln), owing to a significant increase in markup on investments to PKR 227bln (CY22: PKR 39bln) and markup on advances to PKR 9.3bln (CY22: PKR 4.2bln). Markup expense spiked due to the enhancement of OMO facility in CY23 and clocked at PKR 230.7bln (CY22: PKR 40.6bln). Hence, the net markup income of PKIC witnessed an upstick to stand at PKR 6bln in CY23 (CY22: 2.5bln). During 1QCY24, markup earned stood at PKR 52.1bln

Performance During CY23, non-markup income of PKIC stood at PKR 9.3bln (CY22: PKR 4.7bln). Dividend income supplements the profitability that stood at PKR 8.6bln. In 1QCY24, PKIC's net profit witnessed a decline and stood at PKR 222mln. on the back of stagnant interest rates despite market anticipation of the downward trend.

Sustainability PKIC has ventured into the Islamic digital banking domain, establishing the self-proclaimed first digital bank, Raqami Islamic Digital Bank (RIDB). PKIC has a controlling equity stake of ~72.9%. PKIC has achieved a pivotal milestone by launching a new business avenue in the Islamic Finance Division to provide a diverse array of Sharia-compliant financial products.

Financial Risk

Credit Risk During CY23, the Company's Corporate Banking Portfolio continued the surge to PKR 62.78bln (1QCY24: PKR 62.1bln PKR CY22: PKR 59.4bln) PKIC maintains a portion of its finances in TFCs (1QCY24: 12.52%, CY23: 12.48%, CY22: 14.7% of total finance). During CY23, the TFC portfolio inched down to stand at PKR 7.8bln (CY22: PKR 8.7bln) while in 1QCY24, the TFC portfolio stood at PKR 7.98bln. TFCs portfolio is comprised of high-rated debt instruments with good credit quality. Total assets beefed up YoY to stand at PKR 1083.6bln (CY22: PKR 764.9bln). During CY23, the infection ratio witnessed a decline to 1.5% (CY22: 2.0%).

Market Risk In CY23, Pak Kuwait's investment book increased exponentially to PKR 988.4bln (CY22: PKR 689bln). As of 1QCY24, investments stood at PKR 1,007bln. Analysis of the investment book reveals that contribution by government securities significantly increased and stood at PKR 972.4bln during CY23 (CY22: PKR 674.6bln) which is 98% of the total investment book. The mark-to-market gain on PIBs as of Dec-23 is PKR 2.2bln with the weighted average duration of the book around 2 years

Liquidity And Funding During 1QCY24, borrowings stood at PKR 1,048bln (CY23: PKR 1,026.5bln; CY22: PKR 727.2bln). In CY23, PKIC recorded deposits at PKR 19.27bln (CY22: PKR 13.68bln), and in 1QCY24 the deposit of the Company stood at PKR 24.4bln. Over the last few years, the shift in exposure to government securities from equity investments decreased liquidity risk. The Liquidity Coverage Ratio witnessed decline and stood at 87% in CY23 (CY22: 134%).

Capitalization A strong equity base (CY23: PKR 34.3bln; 1QCY24: PKR 30.1bln; CY22 PKR 20.64bln), mainly comprising Tier-I capital provides comfort to absorb the impact of any adverse macroeconomic performance-related shocks. Pak Kuwait's capital adequacy stood at 39.1% during CY23 (1QCY24: 26.2%, CY22: 27.6%), PKR mln

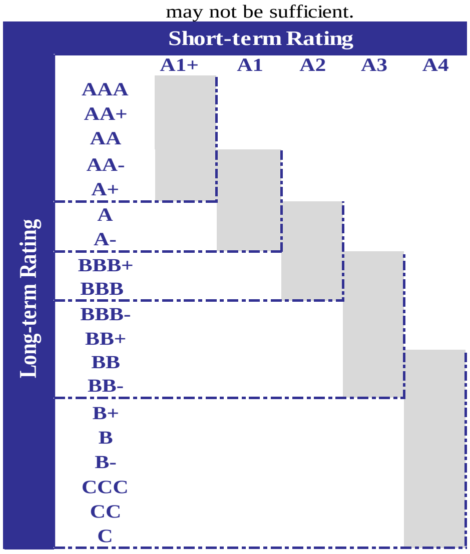
Pakistan Kuwait Investment Company Private Limited	Mar-24	Dec-23	Dec-22	Dec-21
	3M	12M	12M	12M
A BALANCE SHEET				
1 Total Finances - net	62,090	62,787	59,411	36,138
2 Investments	1,000,775	980,563	680,313	68,909
3 Other Earning Assets	324	117	9,917	19
4 Non-Earning Assets	46,111	41,330	16,327	4,379
5 Non-Performing Finances-net	(1,122)	(1,125)	(1,059)	(559)
Total Assets	1,108,178	1,083,672	764,909	108,886
6 Deposits	24,395	19,271	13,685	6,265
7 Borrowings	1,048,285	1,026,530	727,243	81,209
8 Other Liabilities (Non-Interest Bearing)	5,389	3,578	3,337	1,626
Total Liabilities	1,078,069	1,049,379	744,265	89,100
Equity	30,109	34,293	20,644	19,786
B INCOME STATEMENT				
1 Mark Up Earned	52,074	236,792	43,194	7,340
2 Mark Up Expensed	(56,145)	(230,745)	(40,662)	(5,079)
3 Non Mark Up Income	4,547	9,385	4,775	3,532
Total Income	476	15,432	7,307	5,793
4 Non-Mark Up Expenses	(358)	(2,344)	(1,822)	(1,542)
5 Provisions/Write offs/Reversals	5	146	(1,175)	(364)
Pre-Tax Profit	123	13,233	4,311	3,887
6 Taxes	99	(3,232)	(1,347)	(774)
Profit After Tax	222	10,001	2,963	3,113
C RATIO ANALYSIS				
1 Cost Structure				
Net Mark Up Income / Avg. Assets	-1.5%	0.7%	0.6%	2.1%
Non-Mark Up Expenses / Total Income	75.2%	15.2%	24.9%	26.6%
ROE	2.8%	36.4%	14.7%	10.8%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	2.7%	3.2%	2.7%	18.2%
Capital Adequacy Ratio	26.2%	39.1%	27.6%	24.5%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	40.8%	38.9%	69.0%	68.2%
(Advances + Net Non-Performing Advances) / Deposits	223.3%	279.3%	362.4%	436.7%
4 Credit Risk				
Non-Performing Advances / Gross Advances	1.5%	1.5%	2.0%	3.7%
Non-Performing Finances-net / Equity	-3.7%	-3.3%	-5.1%	-2.8%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating	
Scale	**Definition**
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ **AA** **AA-**	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ **A** **A-**	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ **BBB** **BBB-**	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ **BB** **BB-**	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ **B** **B-**	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC **CC** **C**	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating	
Scale	**Definition**
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument;| Chapter III | 17-(d)

Probability of Default

(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

Proprietary Information